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Forty-fifth session
Items 71, 142 and 144 of the
provisional agenda*
REVIEW OF THE IMPLEMENTATION OF THE
DECLARATION ON THE STRENGTHENING OF
INTERNATIONAL SECURITY
DEVELOPMENT AND STRENGTHENING OF
GOOD-NEIGHBOURLINESS BETWEEN STATES
PEACEFUL SETTLEMENT OF DISPUTES
BETWEEN STATES

SECURITY COUNCIL
Forty-fifth year

Letter dated 7 September 1990 from the Permanent Representative of Italy to the United Nations addressed to the Secretary-General

I have the honour to transmit the texts, in English and French, of the Declaration on the Crisis in the Gulf, the Declaration on EC-Arab Relations and the Declaration on Foreign Citizens in Iraq and Kuwait (annexes I-III) issued by the Twelve States members of the European Community at the Extraordinary Ministerial Meeting of European Political Co-operation, held at Rome on 7 September 1990.

I should be grateful if you would have the text of the present letter and its annexes circulated as a document of the General Assembly, under items 71, 142 and 144 of the provisional agenda, and of the Security Council.

(Signed) Vieri TRAXLER
Ambassador

* A/45/150 and Corr.1.

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ANNEX I

DECLARATION ON THE CRISIS IN THE GULF

The European Community and its member States reaffirm their full support for the implementation in all aspects of the Resolutions of the Security Council relating to the crisis in the Gulf and their determination to be active in ensuring that they are respected. The European Community and its member States are convinced that a complete implementation of the embargo decided by the Security Council with regard to Iraq is the essential condition for bringing about a peaceful solution to the crisis. They are fully implementing the embargo and call on all members of the international community to do likewise.

The Community and its member States are conscious of the grave burden which the present crisis imposes on the economy of many countries. They are therefore determined to contribute to the effort being made by such countries to address the situation and faithfully implement the embargo.

Countries most immediately affected by the implementation of the embargo, and notably Egypt, Jordan and Turkey, have applied for assistance to offset those short-term effects. The Community and its member States have taken a decision on the principle of extending such short-term financial assistance to these three countries. This assistance will take place in the framework of concerted action with other industrialised countries as well as with the countries of the region. The General Affairs Council will take appropriate decisions at its forthcoming meeting on the basis of Commission proposals and the results of consultations with third countries.

In this situation, it is essential that international cooperation is intensified and that the international institutions (IMF, World Bank, GATT and other bodies like the Paris Club) play their full role. The newly created EBRD should also contribute to the solution of the difficulties for the countries of Central and Eastern Europe. It is of crucial importance that all efforts are made to prevent the affected economies turning in on themselves.

In addition to the humanitarian aid already provided, a major effort is necessary to assist in the repatriation of refugees from Iraq and Kuwait. The Community is ready to commit a substantial amount from its own budgetary resources for additional humanitarian aid. Member States will contribute to the joint effort, notably by providing transportation facilities.

The Community and its member States reiterate their readiness to continue the political dialogue and to strive for an early opening and a rapid conclusion of the trade agreement negotiations with the GCC countries.

/...

The Community will speed up work already under way concerning the intensification of the Community's Mediterranean policy.

The European Community and its member States are moreover resolved to contribute to the bringing into being of a policy of regional cooperation aimed at influencing, in a constructive way, the solution of structural problems which afflict the Mediterranean area and the Middle East under the aspects of stability and of economic and social well-being. The forthcoming Palma meeting in the context of CSCE will be an important occasion to contribute to the much needed longer-term reflection on these problems.

ANNEX II

DECLARATION ON EC-ARAB RELATIONS

At a time when the brutal aggression and annexation by Iraq of another Arab country affects the entire international community, and in particular the states of the Near and Middle East, the European Community and its member States reaffirm their determination to consolidate and reinforce the historic ties of friendship which bind them to the whole of the Arab world. They are ready to continue to contribute to the establishment in the region of a situation of peace, stability and cooperation, which is the only way to promote the economic and social well-being of all the people of the area.

To this end, they remain committed to the development of the Euro-Arab dialogue which was opportunely relaunched at the Ministerial Meeting last December in Paris. The Presidency will make in the coming days the appropriate contacts with the Arab side with a view to the early convening of a meeting at ministerial level.

The Community and its member States believe that high priority must be given to a solution of the crisis created by the Iraqi aggression of Kuwait, with the full and unconditional implementation of the relevant UN Security Council Resolutions. It is a further injustice to the Arab people that Iraq's aggression against Kuwait has delayed the search for progress towards a solution to other problems of the region, such as the Arab-Israeli conflict, the Palestinian problem and the situation in Lebanon. They reaffirm their long-standing commitment to a just, comprehensive and lasting solution of the problems of the region, in conformity with the relevant UN Security Council Resolutions and the principles set out by the Community.

ANNEX III

DECLARATION ON FOREIGN CITIZENS IN IRAQ AND KUWAIT

The European Community and its member States reaffirm their utter condemnation of the measures taken by the Iraqi authorities against foreign citizens in Iraq and Kuwait and against embassies in Kuwait. They insist on full respect of the right to freedom of movement of foreign citizens in those countries. They regard these measures as totally unacceptable and contrary to international law and will continue to react to them with complete solidarity.

The Community and its member States deplore the fact that despite the efforts made by the Secretary General of the United Nations through his emissaries and in person in the recent discussions in Amman, the Iraqi authorities have not complied with Resolution 664, in which the Security Council requires Iraq to permit and facilitate the immediate departure from Kuwait and Iraq of the nationals of third countries. They express the urgent wish that the General Secretary of the UN could pursue its efforts and extend them to the situation of the diplomatic and consular representations in Kuwait by sending a mission in order to establish contact with them.

The Community and its member States look for the early resumption of discussions between the Iraqi authorities and the ICRC and urge them to co-operate fully with the ICRC's efforts to establish forms of protection and assistance for foreign citizens held in Iraq and Kuwait.

They reiterate that the Iraqi authorities are obliged to allow all foreign citizens and not only women and children, held against their will, to leave. The Community and its member States remain determined to do what is necessary to ensure their protection. They hold the Iraqi authorities fully responsible, in accordance with international law - including in their individual capacities - for the safety of foreign citizens.

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STRENGTHENING OF INTERNATIONAL
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DEVELOPMENT AND STRENGTHENING
OF GOOD-NEIGHBOURLINESS
BETWEEN STATES
PEACEFUL SETTLEMENT OF DISPUTES
BETWEEN STATES

SECURITY COUNCIL
Forty-fifth year

Letter dated 7 September 1990 from the Chargé d'affaires a.i. of the Permanent Mission of Japan to the United Nations addressed to the Secretary-General

Further to the letter of the Permanent Representative of Japan dated 29 August 1990 (A/45/467-S/21673), informing you, inter alia, of the decision of the Government of Japan to provide emergency aid totalling 10 million United States dollars as a fund for evacuee relief activities in Jordan, I have the honour to inform you that the Japanese Government, in response to a request from the International Organization for Migration (IOM), has decided, on 7 September 1990, to extend additional emergency aid of 12 million dollars for a plan of action to enable Asian evacuees in Jordan and other countries to return to their home countries.

An outline of this decision is attached for your reference.

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* A/45/150 and Corr.1.

I should be grateful if you would arrange for the text of the present letter and its annex to be circulated as a document of the General Assembly, under items 71, 142 and 144 of the provisional agenda, and of the Security Council.

(Signed) Katsumi SEZAKI
Ambassador Extraordinary and
Plenipotentiary
Chargé d'affaires a.i.
Deputy Permanent Representative
of Japan to the United Nations

ANNEX

Emergency aid for evacuees in Jordan
and other countries in the region

(Outline)

On 7 September, in response to a request from the International Organization for Migration (IOM) for aid totalling $US 23,460,000 for a plan of action to enable the Asian evacuees in Jordan and other countries to return to their home countries, the Government of Japan decided to extend additional emergency aid of $12 million, 51 per cent of the requested amount, to IOM through the Office of the United Nations Disaster Relief Co-ordinator (UNDRO). Japan is extending this aid from the standpoint of discharging its obligation as an Asian nation by positively assisting Asian countries, as well as from a humanitarian standpoint, in view of the serious situation confronting Asian evacuees, including Bangladeshis, Filipinos, Pakistanis and Sri Lankans, who have crossed into Jordan but cannot return to their own countries.

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THE SITUATION IN THE MIDDLE EAST

SECURITY COUNCIL
Forty-fifth year

Letter dated 7 September 1990 from the Permanent Representative of Italy to the United Nations addressed to the Secretary-General

I have the honour to transmit the text, in English and French, of the Declaration on Lebanon issued by the Twelve States members of the European Community at the Meeting of European Political Co-operation, held at Rome on 5 and 6 September 1990.

I should be grateful if you would have the text of the present letter and its annex circulated as a document of the General Assembly, under item 35 of the provisional agenda, and of the Security Council.

(Signed) Vieri TRAXLER
Ambassador

* A/45/150 and Corr.1.

ANNEX

Statement on Lebanon issued by the Twelve States members of the European Community

The Community and its member States welcome the ratification by the Lebanese Parliament on 21 August of the Taif accord. They hope that this historic step will lead rapidly to implementation of all stages of the agreement. They reiterate their firm commitment to the sovereignty, independence, unity and territorial integrity of a Lebanon free of foreign troops, and their belief that the Taif accord provides the only mechanism for achieving this.

The Community and its member States deplore the continuing violence in the South of Lebanon and the Bekaa Valley. They also deeply regret that General Aóun has still not accepted the Taif framework and the authority of President Hrawi and his Government. They urge him to show flexibility and accept the accord now that it has been duly ratified.

At this critical time in the Middle East, the Community and its member States wish to emphasize that the way forward in Lebanon must continue to be through negotiation and not the use of force by any side, causing further pointless bloodshed and destruction. The Community and its member States appeal to all sides as Lebanese patriots to work towards a Government that will achieve real national unity.

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Agenda item 79

DEVELOPMENT AND INTERNATIONAL ECONOMIC CO-OPERATION

Net transfer of resources from developing countries

Report of the Secretary-General

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READEX FICHE

I. INTRODUCTION

1. The Economic and Social Council, at its second regular session in 1989, adopted resolution 1989/112 of 28 July 1989 on the net transfer of resources from developing countries and its impact on their economic growth and development. Specifically, the Council requested

> "a more comprehensive analysis of the transfer of resources to and from developing countries, the main factors affecting such transfers and their impact on the growth and development of developing countries, presenting alternative hypotheses on the future evolution of that issue, taking into account recent developments in the world economy and distinguishing between both gross and net resource transfers and financial transfers ...".

In response to that resolution, the Assistant Secretary-General for Development Research and Policy Analysis made a preliminary oral presentation to the Second Committee of the General Assembly on 16 October 1989. Moreover, chapter IV of the World Economic Survey 1990 1/ contains a thorough analysis of the net financial transfer of the developing countries.

2. The General Assembly continued the debate of this issue and, in its resolution 44/232 of 22 December 1989, requested the Secretary-General to report on the implementation of various recommendations contained in paragraph 1 of the resolution, which address the need to ensure adequate resources for the reactivation of economic growth and sustained development in developing countries.

3. At its more recent session, the Economic and Social Council adopted resolution E/1990/56 of 26 July 1990, in which the Secretary-General is requested "to include in his report to be submitted to the General Assembly in response to paragraph 4 of General Assembly resolution 44/232 a review and analysis of the issues and problems at both the national and international level raised by this phenomenon".

4. The net transfer issue has attracted considerable attention in recent years. Essentially, the deterioration of the net transfer situation for many developing countries during the 1980s is an aspect of the debt situation. In 1987, the first report of the Secretary-General on the net transfer of resources from developing to developed countries (A/42/272) examined the conceptual issues and described the pattern of financial flows to developing countries in the 1970s and 1980s, identifying the factors that resulted in the present net outflow of resources from the developing countries as a group. Even earlier, the Secretariat had drawn attention in its World Economic Survey 1985 to the shift in the resource flows to developing countries that took place in 1983-1984. In 1988, a second report of the Secretary-General on net transfer of resources from developing countries to developed countries 2/ extended the previous analysis by examining the interactions between changes in the terms of trade and changes in the pattern of financial flows to and from developing countries. 3/

II. TRENDS IN THE NET FINANCIAL TRANSFER OF THE DEVELOPING COUNTRIES AND ITS COMPOSITION

5. On all accounts, 1983 is the year in which the net transfer of resources of the developing countries as a group turned negative, and it has remained so every year since. According to the most recent survey on Financing and External Debt of Developing Countries of the Organisation for Economic Co-operation and Development (OECD), "short of a marked fall in international interest rates or significant debt (service) reduction, and a vigorous recovery in confidence and investment in the problem countries, the underlying trend is for persistently high and even growing net financial transfers". 4/ The negative transfer is thus not a short-run phenomenon.

6. Developing countries have traditionally been "capital-importing countries". This denomination reflected the fact that these countries were importing goods and services at a faster rate than they were exporting goods and services, and were "importing capital" to finance the corresponding current account deficit. It reflected also the conviction that, at initial stages of growth, an expanding economy has to put in place a number of import-intensive activities and that therefore import needs tend to outpace the ability to increase exports.

7. During the 1980s, as shown in table 1, the aggregate of capital-importing developing countries - which represents all developing countries with the exception of eight major oil-exporting countries classified as "capital-surplus" - has experienced an outward net financial transfer since 1983. The story behind the figures in table 1 is now well known. The same unfavourable conjunction of factors at the start of the 1980s that explains the beginning of the debt crisis is at the origin of the prolonged outflow of resources from developing countries. The outcome is that developing countries, on the whole, are being transformed in net exporters of financial resources long before reaching commensurate levels of development. This conjunction of factors can be summarized as follows:

(a) Foreign debt in many developing countries had reached high levels. In the second half of the 1970s, developing countries - in particular the newly industrializing among them - had borrowed easily from commercial banks. In those years, since real interest rates were very low, many countries had opted for "growth-cum-debt" instead of earlier retrenchment and adjustment to a lower level of foreign exchange availability;

(b) Interest rates did rise steeply, over a debt structure in which commercial loans at floating rates represented most of the debt. Starting in 1979, the industrialized countries, led by the United States of America, tightened their monetary policies to fight inflation. This brought unprecedented interest levels, which multiplied suddenly the cost of third world debt;

(c) Because of deteriorating terms of trade and a lack of ability to increase exports earnings with sufficient speed, too many countries could not cope with the rapid rise in debt service. The same policies in OECD countries that brought higher interest rates resulted in the world-wide recession of the early 1980s, which depressed export prices from developing countries and reduced markets for their products;

Table 1. Net transfer of financial resources of the capital-importing developing countries, 1980-1989 a/

(Billions of dollars; sample of 96 countries)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 b/
Transfer through direct investment										
Net investment flow	5.5	9.0	6.4	5.5	5.6	6.3	5.6	8.7	14.1	13
Net dividends and other income	-10.5	-9.9	-9.4	-8.8	-8.0	-7.5	-6.4	-7.0	-7.8	-9
Net transfer	-5.0	-0.9	-3.0	-3.3	-2.5	-1.2	-0.8	1.7	6.3	4
Transfer through private credit										
Medium-term and long-term foreign borrowing										
Net credit flow	35.4	48.3	40.6	26.5	17.8	11.6	7.7	1.4	6.5	6
Interest paid	-24.2	-31.2	-37.2	-35.2	-39.9	-38.9	-34.6	-33.9	-39.2	-42
Net transfer	11.2	17.0	3.4	-8.7	-22.0	-27.3	-27.0	-32.5	-32.8	-36
Short-term borrowing and domestic outflows c/										
Net transfer	0.9	-17.3	-27.2	-18.9	-12.7	-8.6	1.8	3.2	-10.1	7
Transfer through private grants (net)	1.2	1.2	1.2	1.9	2.1	2.5	3.4	3.5	4.2	4
Transfer through official flows										
Official transfers (grants)	11.1	11.7	9.2	10.2	10.7	11.5	11.1	12.3	12.4	12
Net official credits	23.2	28.8	31.6	27.7	25.0	16.5	16.0	12.0	16.0	22
Interest paid	-5.8	-6.8	-8.3	-9.7	-11.3	-12.8	-15.6	-16.9	-18.2	-22
Net transfer	28.6	33.7	32.5	28.2	24.5	15.1	11.5	7.5	10.2	13
Total transfer (financial basis)	36.8	33.8	7.0	-1.2	-10.6	-19.4	-11.1	-16.6	-22.1	-7
Use of official reserves d/	-12.8	2.7	15.9	-8.0	-19.4	1.6	8.7	-14.4	-9.9	-17
Total transfer (expenditure basis)	24.0	36.5	22.9	-9.2	-30.0	-17.8	-2.4	-31.0	-32.0	-24

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on data of the International Monetary Fund (IMF), OECD, the World Bank and United Nations Secretariat estimates.

(Footnotes on following page)

(Footnotes to table 1)

a/ Definitions: direct investment is net of reinvested earnings (cash flow approach); official credits include use of IMF credit, and interest includes Fund charges; private grants include net flow of gifts from overseas residents (excluding workers' remittances) and grants by non-governmental organizations.

b/ Preliminary estimate; rounded to the nearest half-billion dollars.

c/ Calculated as a residual (including short-term trade financing, normal and unusual outflows ("capital flight"), arrears on interest due, and other flows captured in balance-of-payments data as "errors and omissions" and presumed to be financial flows).

d/ Additions to reserves shown as negative numbers.

(d) Finance from private creditors dried up suddenly and could not be compensated for by official credit.

8. After 1982, commercial banks rapidly reduced their exposure in developing countries. Even though not all developing countries were affected by the debt crisis, the drying up of finance from private creditors also affected, by contagion, developing countries with no immediate balance-of-payments difficulties. Net private credit flows to capital-importing developing countries, as shown in table 1, went down steeply from $48 billion in 1981 and were just above $1 billion in 1987. They went up somewhat in the next years, in the context of various debt-restructuring exercises. However, voluntary new lending from commercial banks to developing countries is virtually non-existent today, and it is not expected that it will start soon.

9. Together with interest rates, interest payments due went up very rapidly. For the highly indebted countries, interest payments more than doubled in the first two years of the decade (see table 2). Interest rates remained throughout the decade at historically high levels. Even the effect of recent debt-reduction agreements did not make much of a dent in terms of reducing the debt-service jumps resulting from prior interest rate hikes. 5/ Interest payments were still rising in 1989, despite interest arrears. Unusual before the 1982 break-out of the debt crisis, interest arrears have been increasing continuously, reflecting the payment difficulties in the indebted countries. Interest arrears on long-term debt have been estimated by the World Bank at some $31 billion end-1989 and are not projected to become less this year. 6/ Figures for the net negative transfer would be even higher if it were not for payment arrears.

10. Official credit did not give rise to the net negative transfer. Even though an important component, such as official export credits, also fell off considerably, net official credit remained positive for the aggregate of developing countries after 1983. Official multilateral credit continued to increase in the 1980s, but, with overall more or less stagnant bilateral official credit, the increase in total official credit was too slow to compensate for the sharp reduction in private credit. Since 1987, however, the net financial transfer through official credits has been negative for the aggregate of the capital-importing developing countries, and even more so for the highly indebted countries. In the most recent years, official transfers on the whole are positive only when grants are included in the estimate (see table 1). 7/

11. On the whole, the changed situation meant that the traditional rollover of debts by commercial banks came to a halt. The cumulative result of the numerous reschedulings has been a relative reduction of debt owed to private creditors and an increase in debt owed to official creditors. Since 1989, developing countries already owe more than half of their debt to official creditors and the proportion of official debt is increasing. 8/

12. The net flow on account of foreign direct investment towards developing countries also declined in the 1980s and has been negative during some of the years of the decade. Sub-Saharan Africa has suffered from an outflow on account of foreign direct investment. But the highly indebted middle-income countries still register a net inflow of foreign direct investment (see tables 2 and 3).

Table 2. Net transfer of financial resources to a sample of middle-income highly indebted countries a/

(Billions of dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 b/
Transfer through direct investment										
Net investment flow	2.6	5.4	3.5	2.2	2.0	3.1	1.8	3.9	6.5	4
Net dividends and other income	-3.6	-3.4	-3.2	-2.7	-2.5	-2.8	-3.0	-3.5	-4.3	-5
Net transfer	-1.0	2.0	0.2	-0.5	-0.5	0.3	-1.2	0.5	2.1	-
Transfer through private credit										
Net credit flow	26.4	28.9	12.0	0.1	0.4	-10.0	-2.5	3.7	-9.3	2
Net interest paid	-14.3	-23.9	-34.6	-31.3	-33.9	-31.2	-25.8	-24.9	-26.9	-28
Net transfer	12.1	5.0	-22.6	-31.3	-33.6	-41.2	-28.3	-21.2	-36.2	-26
Private grants and gifts (net)	0.7	0.8	0.6	0.7	0.8	0.9	1.0	1.1	1.4	1
Transfer through official flows										
Official transfers (grants)	1.0	1.0	0.7	0.8	0.8	1.3	0.9	1.1	1.3	1
Net official credits	5.4	7.1	10.2	8.8	9.8	5.0	6.2	2.3	4.0	6
Interest paid	-2.2	-2.5	-3.1	-3.4	-4.2	-5.0	-6.3	-7.1	-7.9	-11
Net transfer	4.2	5.6	7.8	6.2	6.3	1.3	0.8	-3.8	-2.5	-4
Overall net transfer (finance definition)	16.0	13.4	-13.9	-24.9	-26.9	-38.7	-27.7	-23.3	-35.2	-29
- Additions to reserves	7.3	-7.1	-23.2	1.0	13.5	2.2	-4.9	5.4	-3.6	6
= Overall net transfer (expenditure definition)	8.7	20.5	9.3	-23.8	-40.4	-40.9	-22.8	-28.7	-31.7	-35

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on data of IMF, the World Bank and United Nations Secretariat estimates.

Note: Direct investment is net of re-invested earnings (cash-flow approach); official credits include use of IMF credit and interest includes Fund charges; net private credit flow includes arrears on interest as well as principal and outflows of capital by residents.

a/ Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.

b/ Preliminary estimate.

Table 3. Net transfer of financial resources to sub-Saharan Africa a/

(Billions of dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 b/
Transfer through direct investment										
Net investment flow	-0.3	1.0	0.8	0.8	0.3	0.7	0.2	0.8	0.9	1
Net dividends and other income	-2.5	-1.7	-1.4	-1.0	-1.0	-1.1	-0.9	-1.5	-1.4	-1
Net transfer	-2.8	-0.8	-0.6	-0.3	-0.7	-0.5	-0.8	-0.7	-0.4	-
Transfer through private credit										
Net credit flow	2.3	3.4	6.2	3.4	-1.0	-0.9	0.8	3.1	3.6	2
Net interest paid	-0.6	-0.9	-1.8	-2.1	-2.2	-2.8	-2.2	-4.1	-4.1	-4
Net transfer	1.7	2.5	4.4	1.3	-3.2	-3.7	-1.5	-1.0	-0.5	-2
Private grants and gifts (net)	-	0.1	0.2	0.2	0.6	0.7	0.7	0.8	0.9	1
Transfer through official flows										
Official transfers (grants)	3.0	3.1	2.7	2.9	3.0	3.6	3.8	4.7	4.7	5
Net official credits	4.3	5.6	5.4	5.7	3.8	2.6	3.7	2.4	3.9	5
Interest paid	-0.8	-0.8	-1.0	-1.1	-1.4	-1.6	-1.8	-2.0	-2.3	-2
Net transfer	6.6	7.9	7.1	7.5	5.4	4.6	5.7	5.0	6.4	7
Overall net transfer (finance definition)	5.5	9.8	11.1	8.8	2.2	1.1	4.1	4.2	6.4	6
- Additions to reserves	4.1	-4.7	-2.3	-0.1	1.4	2.1	0.2	0.8	0.9	2
= Overall net transfer (expenditure definition)	1.3	14.5	13.4	8.9	0.8	-1.0	3.9	3.3	5.5	4

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on data of IMF, the World Bank and United Nations Secretariat estimates.

Note: Direct investment is net of re-invested earnings (cash-flow approach); official credits include use of IMF credit and interest includes Fund charges; net private credit flow includes arrears on interest as well as principal and outflows of capital by residents.

a/ Sample of 42 countries, including Nigeria.

b/ Preliminary estimate.

.../...

13. These aggregate figures give some idea of the burden of adjustment necessary in developing countries to face the shift from inflow to outflow of financial resources, but they give only a partial picture. Not all developing countries suffer a net negative transfer, though it is far from being a rare occurrence. During the 1980s the net transfer on account of credit has been negative in more than 40 developing countries. An overall negative transfer has been present in more than 30 countries. Obviously, the story is not the same for all these countries. The development implications of the net negative transfer are essentially different in three groups of countries: (a) the energy-exporting countries that have been denoted for analytical purposes as "capital-surplus countries"; (b) the four successful exporters of manufactures, namely, Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China; (c) the rest of the developing countries in that category. Their separate stories of net transfer have been analysed in World Economic Survey 1990, chapter IV. One important difference is whether the trade surplus that has to be present to allow the financial transfer abroad is obtained through rapid export growth or through import curbs and whether such surplus results in the presence of favourable or unfavourable changes in the terms of trade. The impact on investment and on growth has been closely associated with the rapidity and size of the shift in the flow of foreign finance, and on the policy measures and flexibility of the economy to bring about the corresponding shift towards higher exports, as well as an increase in domestic savings to compensate the reduction in savings from abroad.

14. Sub-Saharan Africa, for various reasons, received positive net financial transfers throughout the decade, but the amount diminished considerably (see table 3). Commercial banks had a comparatively low share in the debt of sub-Saharan Africa. Special debt relief and financial support measures were also put in place for low-income countries. Moreover, grants, official and private, were and still remain an important component of the overall inflow. Yet, while in sub-Saharan Africa as a whole net financial transfers were positive over most of the decade, it should be noted that a country like Nigeria, where private credits had an important participation, has experienced an outward net transfer since 1984.

III. TERMS OF TRADE AND THEIR RELATIONSHIP TO NET FINANCIAL TRANSFERS

15. Changes in terms of trade and changes in the patterns of financial flows interact in many ways. Some have already been alluded to. A sudden worsening of terms of trade, brought about by a sharp decline in prices of the main commodity exports of a country, increases the need for external finance to offset the resulting decline in export earnings, or else implies import contraction and the related decline, at least in the short term, in domestic activity. Along the same lines, if a country has to make a financial transfer abroad due to repayment of previously contracted debt, obviously the task is made easier/harder depending on the presence of gains/losses deriving from changes in terms of trade. Interactions between the flow of finance and changes in terms of trade are also important. As is known, easy credit in the 1970s came to a large extent on the wake of extraordinary gains in the terms of trade of oil-exporting countries. On the other hand, the debt crisis is itself partly the result of a collapse in commodity prices

and an unfavourable change of terms of trade in the indebted countries. In turn, the battle to obtain trade surpluses to cope with the sudden increase in debt service most probably influenced a further decline in commodity prices. Simultaneous efforts by several countries to increase the supply of commodities whose demand is generally price-inelastic, have the effect of drawing down their prices.

16. The secular trend in the terms of trade of developing countries has been an important issue in the analysis of development prospects and policies, 9/ but more recently the discussion on terms of trade has concentrated on the severity of the shocks that hit developing countries in the 1980s. Commodity prices declined persistently in the 1980s. Between 1980 and 1988, the real prices of non-fuel commodities from developing countries declined by 40 per cent. Fuel prices declined by 50 per cent in the same period. Owing mainly to the recovery in minerals and agricultural raw materials between mid-1987 and the first quarter of 1988, the average price index of commodities recovered somewhat, but was still far below its levels at the start of the decade. It remained stable over 1988, only to renew its decline in 1989.

17. The impact of these price movements on country groupings and individual countries varied according to the composition of their exports. Commodity-dependent countries lost ground, while countries with more diversified exports and a high share of manufacture exports faced neutral or, in some cases, improving terms of trade. But the fact is that, on the whole, developing countries were adversely affected by changes in terms of trade. Terms-of-trade losses of one country are the gain of another. Industrial countries benefited from the changes in terms of trade in the 1980s.

18. The most common measure of the terms of trade is the so-called net barter terms of trade, which is calculated as the change in the ratio of an export price index to an import price index, relative to a base year. If a country faces a reduction in its terms-of-trade index, it means that for the same volume of exports it will be able to obtain less imports, which is to say that it suffers a decline in real income (or decrease in domestic resource availability). Measurement difficulties, as the choice of the base year, the question of the changing composition of exports and imports, the interaction with changes in volume, have been discussed in previous documents. 10/ In assessing the impact of terms-of-trade changes on individual countries, it is necessary to keep in mind in particular the weight of international trade and the degree of diversification of exports. In the sample of countries studied in the annex, in some cases a very high percentage in gross domestic product (GDP) of the terms-of-trade losses is explained by the very high share of exports in GDP. When examining an aggregate of countries, arguably the extreme cases are smoothed away in the average.

19. In tables 4 and 5, the shocks for two groups of countries affected by the changes of the economic environment of the 1980s are quantified. The figures for financial transfers are as calculated in tables 2 and 3. The estimates of the gains or losses from trade are a comparison of every year with 1980, that is, they represent a comparison with the hypothetical situation that the prices of exports

Table 4. Sub-Saharan Africa: a/ external shocks

(Billions of dollars and percentage of GDP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 b/
Net financial transfer	1.3	14.5	13.4	8.9	0.8	-1.0	3.9	3.3	5.5	4.0
(GDP 1985: $175 billion)										
Share in 1985 GDP	0.7	1.8	1.7	1.1	0.1	-0.1	0.5	0.4	0.7	0.5
Terms of trade (1980 = 100)	100	95	93	94	100	99	82	74	74	72
(Value of exports in 1980: $57 billion)										
Gains (losses) from trade		-2.9	-4.0	-3.4	0.0	-0.6	-10.3	-14.8	-14.8	-16.0
Share in 1985 GDP		-1.6	-2.3	-2.0	0.0	-0.3	-5.9	-8.5	-8.5	-9.1
Impact on total domestic resource availability		11.7	9.4	5.5	0.8	-1.6	-6.4	-11.5	-9.3	-12.0
Share in 1985 GDP		6.7	5.4	3.1	0.5	-0.9	-3.6	-6.6	-5.3	-6.8

Source: United Nations Department of International Economic and Social Affairs, based on data of the IMF, the World Bank and the United Nations Statistical Office.

a/ Including Nigeria.

b/ Preliminary estimate.

Table 5. Middle-income highly indebted countries: a/ external shocks

(Billions of dollars and percentage of GDP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 b/
Net financial transfer	8.7	20.5	9.3	-23.8	-40.4	-40.9	-22.8	-28.7	-31.7	-35.0
(GDP 1985: $801 billion)										
Share in 1985 GDP	1.1	2.6	1.2	-3.0	-5.0	-5.1	-2.8	-3.6	-4.0	-4.4
Terms of trade (1980 = 100)	100	97	90	86	90	85	73	73	71	72
(Value of exports in 1980: $161 billion)										
Gains (losses) from trade		-4.8	-16.1	-22.5	-16.1	-24.2	-43.5	-43.5	-46.7	-45.1
Share in 1985 GDP		-0.6	-2.0	-2.8	-2.0	-3.0	-5.4	-5.4	-5.8	-5.6
Impact on total domestic resource availability		15.7	-6.8	-46.3	-56.5	-65.1	-66.3	-72.2	-78.4	-80.1
Share in 1985 GDP		2.0	-0.8	-5.8	-7.1	-8.1	-8.3	-9.0	-9.8	-10.0

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on data of the IMF, the World Bank and the United Nations Statistical Office.

a/ Sample of 15 countries as listed in table 2.

b/ Preliminary estimate.

and imports had remained the same as in 1980, and that the same volumes as in 1980 had been exported. 11/

20. The figures in tables 4 and 5 show for individual years the level of net financial transfers and the income gains or losses due to changes in terms of trade. The combined effect appears in the last two rows. As already stated in previous analyses, it is in Africa that the decline in commodity prices and terms of trade has taken its heaviest toll. 12/ In North Africa, the drop in oil prices in 1986 had a major adverse impact on export revenues and national income. In sub-Saharan Africa, the losses from unfavourable terms of trade are in the last years of the decade equivalent to more than 10 per cent of its GDP. The positive financial transfer was not enough to compensate for such losses. The story is somewhat different in the group of highly indebted countries. Although terms of trade were also unfavourable to that group of countries, because of a more diversified structure of exports (on the aggregate) the impact, as measured by the share in the 1985 GDP, is milder, and here, over the decade, the strongest impact comes from the financial net negative transfer, but the sum of the impact of the unfavourable environment has been very heavy indeed, in particular in the second half of the decade, when it reached the order of 8 to 9 per cent of gross domestic product in the highly indebted countries, and 4 to 6 per cent of gross domestic product for sub-Saharan Africa.

IV. NET TRANSFER, ADJUSTMENT AND GROWTH

21. A whole range of domestic adjustments occurs in response to a "net negative transfer", since the financial transfer requires a corresponding domestic resource mobilization. The share of the "net negative transfer" in GDP indicates the burden of the adjustment required, that is, the proportions of the domestic mobilization of funds to be transferred abroad. Thus, there is a domestic transfer problem which is the other side of the coin of the transfer abroad. When the shift is large and rapid, corresponding domestic adjustment is not feasible in a short period of time. The difficulty increases commensurately when domestic resource availability has been reduced by terms-of-trade losses.

22. The burden of domestic mobilization has been high and sudden compared with historical transfer cases. Since the debt crisis, indebted developing countries had in general to transfer abroad financial resources between 2 and 3 per cent of their GDP. For Latin America and the Caribbean, the Economic Commission for Latin America and the Caribbean (ECLAC) has calculated a net financial transfer of 4 per cent of GDP in the period 1983-1987. It was higher in several instances in that region and it went over 6 per cent in Mexico and Venezuela, in the same period. 13/ These figures are higher than, for instance, the German transfer case in the interwar period, when Germany, in the period 1924-1932, made war reparation payments. It is also higher than the 3 per cent net transfer from the United States in the period 1949-1961, mainly for aid, grants and investments abroad associated with the Marshall Plan. 14/

23. The rapidity of the shift from positive to negative transfer has added to the problem. Table 6 presents some examples of changes in the transfer, as share of GDP. They are a rough indication of the effort necessary in obtaining a higher domestic savings rate to compensate for the disappearance of external savings - if domestic investment is not to fall - and in increasing exports and correspondingly shifting domestic production towards tradeables. Not all countries were equally prepared to adapt to the shift (see annex I). Countries with falling terms of trade experienced additional difficulties. Yet, a country with a very high domestic savings rate and rapid export expansion in fact voluntarily could increase the net negative transfer by making early principal payments on its debt. 15/

24. The problem of domestic mobilization of the financial transfer is largely a problem of government finance, since by far the largest part of foreign debt is serviced by the public sector in the debtor countries. Not only was an important part of the debt originally contracted by public sector enterprises, but also private sector debt was converted into public sector liabilities. This was particularly the case in Latin America, where Governments in many instances were under pressure to assume the debt of private enterprises to avoid defaults that would have disrupted the economy. Thus, foreign debt service came to absorb an increasing share of tax revenue in many debtor countries.

Table 6. Net financial transfers as percentage of gross domestic product

(Annual averages)

	1974-1979	1980-1982	1983-1987	Shift from 1980-1982 to 1983-1987
Argentina	0.2	-2.0	-4.7	-2.7
Brazil	3.0	0.3	-3.3	-3.6
Côte d'Ivoire	..	9.2	-2.2	-11.4
Indonesia	..	-2.1	-1.2	0.9
Mexico	1.4	-0.6	-6.3	-5.7
Nigeria	..	1.2	-1.7	-2.9
Korea, Republic of	..	3.5	-5.6	-9.1

Source: Department of International Economic and Social Affairs of the United Nations Secretariat and Economic Commission for Latin America and the Caribbean.

25. That a greater share of fiscal revenues has to be absorbed by interest payments abroad implies that a larger transfer of resources from the private to the public sector is required - to compensate for the higher financial expenditure. In other words, according to financial experts, "a net positive change in the fiscal balance must accompany the improvement in the trade account required to make the foreign payment. Or, putting it differently, the Government, which must service the foreign debt, must be able to buy from the private sector the dollars generated by the trade surplus. The additional transfer from the private to the public sector can occur through (i) higher taxation, (ii) a reduction in non-interest public expenditure, (iii) voluntary lending by individuals to the State, (iv) involuntary lending by individuals to the State, and (v) inflationary finance." 16/ The rise in inflation rates that set in soon after the transfer requirements became entrenched in many debtor countries was not accidental. It was largely a consequence of the fact that government budgets became overstretched by the increase in financial expenditures. To accommodate increased financial payments, the Governments of indebted countries either had to increase revenues or cut non-financial expenditures. Higher rates of inflation came because no feasible political pact could be achieved to share the burden of the necessary reduction in non-financial public expenditure or the burden of a rise in tax revenues. High inflation and the disorganization of public finance in several indebted countries would indicate that too often the level of the required transfer abroad was too high and the shift too rapid to be met by non-inflationary finance. 17/

26. In some cases, when public expenditures were comparatively high as a share of GDP, a potential to reduce non-financial public expenditures existed. In fact, reduction in public expenditures did take place, although the cuts were not equally drastic everywhere. Government expenditures as a share of GDP declined almost everywhere in indebted developing countries in the 1980s. In general, public investment bore the brunt of the reduction in government expenditures, although cuts in current expenditures such as salaries of civil servants were also made. Nevertheless, in most indebted countries the cuts were not enough to compensate for the increase in financial expenditures and prevent exploding budget deficits.

27. Increased tax revenues would have contributed to mobilizing domestic resources for the transfer. For reasons that vary from political to administrative considerations, and owing to the narrow tax bases typical in developing countries, tax revenues could not be raised swiftly. In some cases, rises in tax rates proved to be counter-productive, leading to a reduction in the income tax yield despite the increase in the marginal income tax. In addition, the need to increase tax revenues in the 1980s coincided with a period of lower growth rates or even negative growth in various countries. In fact, Governments were facing a shrinking tax base, caused by reductions in per capita income, which were partly the result of falling terms of trade. Moreover, in most developing countries, fiscal revenues are closely associated with import tariffs and export taxes. The decline in the prices of primary commodities negatively affected the latter and the collapse in imports, the former.

28. The inability of Governments to raise revenues and, to a lesser extent, the insufficient cuts in expenditure in face of increased transfer payments, resulted in a rise in fiscal deficits. It has been calculated that to accommodate the

swings in the finance transfers without reducing public investment and without resorting to money creation or increased domestic borrowing would have required, on average, halving current non-interest spending - an impossible task for any Government. 18/

29. In many indebted countries, the increased budget deficits were financed by the central bank through money creation, with the consequent rise in inflation. In a number of them - e.g., Argentina, Brazil and Mexico - domestic indebtedness of the public sector increased at an unprecedented rate. The rapid accumulation of internal debt associated with the external debt crisis posed difficulties of its own. For the public deficit to be financed by domestic borrowing, through the sale of government bonds of various types, domestic interest rates had to rise. Domestic interest rates had to be kept higher than interest rates in the international capital markets, because government bonds were competing with other investment opportunities, including the flight into hard currency induced by inflation and by the bias of any indebted economy towards currency devaluation. When government debt increases rapidly, interest rates are also influenced by the perceived risk of government debt. Thus, the interest rates that Governments had to pay on the domestic debt tended to be higher not only in nominal but in real terms compared to what they had to pay for foreign debt. 19/

30. This largely explains the emergence of a debt-induced vicious circle: higher interest rates, given the high share of interest payments in government expenditure, feed into an increased budget deficit which, in turn, makes it necessary to further increase domestic debt and leads to still higher deficits. When government indebtedness and inflation accelerate, the time-frame in which the debt can be rolled over by Government gradually diminishes. On the limit, domestic debt may become as inflationary as money creation by the central bank.

31. Currency devaluation becomes one more component of this process. Highly indebted economies trying to cope with debt service are all intent on obtaining a trade surplus. Economic policy is oriented towards obtaining the hard currency necessary for the increased debt service. Governments are under pressure to provide incentives that bring about a shift towards exports. This means that currency devaluation has to be kept ahead of inflation. As long as the debt overhang is present, the generalized expectation of regular devaluation is equally present. This is an incentive to capital flight. Moreover, currency devaluation increases the domestic currency equivalent of the foreign debt service, and, in that way, increases again the share of financial expenditures in total government expenditure. This result of currency devaluation adds to the inflationary effect that a large trade surplus has in itself. Governments face conflicting results in their use of policy instruments and even conflicting policy goals. In adopting currency devaluation, the export goal conflicts with the price stabilization goal. 20/

32. In the process of transferring savings abroad, not only public investment was reduced, but private investment declined as well. In fact, in conditions of higher inflation, private investment tended to decline more rapidly than public investment. The overall rate of investment thus declined. For the 15 main debtor nations, the investment ratio (investment over GDP) was 24 per cent of GDP on

average in the 1970s and still the same in 1981. From 1982 on, investment ratios declined, and were around 17 per cent by mid-decade. The figures are similar for the Latin American region. Investment ratios declined from about 23 per cent in 1980 to about 16.5 per cent in 1985 and remained stagnant at that level for the rest of the decade in the region. In Africa, investment ratios went down from an average of 24 per cent in 1980-1982 to less than 20 per cent in 1983-1985 and further down to 18 per cent in 1987-1989. 21/

33. The absorption of a rising share of the government budget by debt service, external and domestic, had another consequence with long-term implications, namely, the decline in social services, including health and education. In developing countries, the provision of health care, education, housing, safe water supply and sanitation has reached a far smaller share of the population than in developed countries. Governments are thus confronted with much larger unmet requirements. As Governments cut non-financial expenditures, this could not but affect social expenditures. Fragmentary evidence exists on the damaging effects of such cuts in social expenditure. 22/

V. POLICY IMPLICATIONS

34. The prolonged and large outward transfers of resources and its association to low or negative growth has been a feature of the 1980s. Investment has particularly suffered in indebted countries. The debt crisis and the pattern of financial flows it engendered continue to be the major obstacle to recovery and development in most indebted countries, particularly in Latin America and in Africa. It has also had adverse repercussions on the exports of many industrial countries. 23/ The internal resource mobilization that the outward transfer implies and the actual policy response to the need of such mobilization was a main factor in the budget crisis of several developing countries. Throughout the 1980s the severity of the adjustment to the shift in financial flows has been compounded by adverse changes in terms of trade. In assessing these trends, the international community has recognized that, during the 1980s, the large net transfer of resources to the developed countries has deprived developing countries of much needed resources for development. 24/

35. The prospects for the 1990s under unchanged policies are bleak for developing economies. Projections of international organizations indicate very little per capita growth in Latin America and the Caribbean and virtual stagnation in Africa. While the international economic environment should be less adverse than that of the 1980s, or might even be favourable, a large number of developing countries are beginning the new decade in a much weaker economic position. A global recession as in the early 1980s, or the prolonged and substantial fall of commodity prices of the last decade, will not necessarily occur in the 1990s. Yet, the starting point for most debtor developing countries is one of depressed investment, deteriorated physical infrastructure and serious balance-of-payments difficulties. Such conditions were not pervasive at the beginning of the 1980s. Massive national and international efforts are required to change these conditions and to revitalize growth and development.

36. Given the diversity of factors determining the sharp fall in net financial transfers to many developing countries, and given the differences in the ability of countries to cope with these changes, a mix of policy measures in various areas is required. For many countries, the mix will have to include further fiscal adjustment and measures towards export diversification, combined with efforts to create a climate of confidence to increase domestic savings and productive investment, including foreign direct investment and return of flight capital. This is a tall order. For the domestic adjustment to be orderly and at all feasible not only from an economic, but from a socio-political standpoint, the shift in the resource transfer should not be abrupt. This implies restoring a higher degree of stability to the flows of international finance and reducing world interest rates.

37. There are, so to speak, two sides of the coin in this issue of the abrupt changes in net transfers: one is the financial implications; the other is the ability to cope with such changes via increased export earnings. Stability in commodity prices and elimination of protectionism against products from developing countries would reduce these countries' need for compensatory finance. Improved access to the markets of industrial countries in areas of interest to developing countries such as textiles and clothing, tropical products and agriculture, as well as the elimination of tariff escalation in developed countries - which is an obstacle to the export diversification of developing countries - are some of the trade measures called for. Anti-dumping measures should not be used as just one more protectionist tool. Beyond a successful completion of the Uruguay Round of multilateral trade negotiations, structural adjustment will be necessary in industrial countries to enable them to reduce protectionism and make room for competitive manufactures from developing countries. And, not least, policy co-ordination at the international level in order to achieve, in the 1990s, vigorous non-inflationary growth. Such policy co-ordination will have to walk the tightrope between supporting economic growth and avoiding that the new demands on world savings drive up world interest rates.

38. Notwithstanding the essential character of other interrelated measures, the main contribution to a reduction of the excessive outward transfer of resources from developing to developed countries would come from a concerted public solution to the debt problem. The Brady plan, initially proposed by the former United States Secretary of the Treasury, Nicholas Brady, has the ingredients of a public solution to the debt problem. It recognized that voluntary lending would not start any time soon and that the debt could not be repaid in the original conditions. In an important departure from the previous strategy, the Brady initiative endorsed the commitment of public finance to support debt reduction. The Brady plan created high expectations on the possibility of debt reduction regarding commercial debt, and thus debt-service reduction and diminution of the net negative transfer. It has made some progress in that direction. After very complex and prolonged negotiations, debt and debt-service reduction was obtained in Costa Rica, Mexico, the Philippines and Venezuela. Nevertheless, only a very partial reduction of the debt overhang was achieved.

39. The unabated increase in the number of reschedulings and in arrears indicates the persistence of the problem. Limited debt reduction, with only a small impact on the the debt overhang and on the net negative financial transfer, cannot bring

about what is aimed at in the first place, namely, to allow an increase in investments and imports, and in growth. The Brady plan has to be extended rapidly to a larger number of developing countries. Adequate debt reduction is necessary to restore development. There are some 40-odd countries waiting to be eligible for the Brady plan, and various studies have concluded that, on the aggregate, a minimum between one third and 45 per cent is necessary to have an impact on investment and growth. On that account, the Brady plan suffers from under-funding, as evidenced also by the shortage of official collateral funds in the last debt reduction agreements.

40. Also, the present accounting, tax and regulatory environment in which banks operate calls for examination. Lack of clarity and differences in national bank law make the negotiations extremely complex and make it difficult to devise a reduction scheme in which all concerned bear their fair share of the cost of debt reduction. To close the unfinished business of the era of concerted lending and move to the concerted acceptance of loss, the case-by-case approach to debt reduction has to be complemented by concerted rules of cost sharing. While at the domestic level countries need to arrive at social consensus on how the burdens and fruits of unavoidable adjustment are to be shared, the international community, to speed up the restoration of adequate flows of finance for development, also badly needs some common rules and agreements on cost-sharing amongst the numerous partners involved.

41. The Brady plan addressed commercial debt only. It is now recognized that official debt, including to the international financial institutions, will have to be part of a solution. Debt relief for most least developed and other low-income developing countries, particularly in Africa, remains critical. Debt forgiveness from bilateral creditors is particularly important for those among such countries that face serious debt-servicing difficulties.

42. Following the Toronto Summit decisions, several low-income countries have benefited in the last two years from easier terms and partial write-offs in the reschedulings of official bilateral debt within the framework of the Paris Club. Regarding low-income countries, an increasing number of donor countries have converted official development assistance (ODA) loans into grants, in line with the United Nations Conference on Trade and Development's Trade and Development Board resolution 165 (S-IX). The Enterprise for the Americas Initiative announced on 27 June this year by President Bush, when proposing to reduce the region's official debt to the United States, implicitly recognized the need to extend beyond the poorest countries the Paris Club eligibility criteria for easing the terms of rescheduling and for reducing official bilateral debt. Still regarding official flows, a positive development is the willingness of IMF and the World Bank to make disbursements while a country has not yet finished negotiations with the banks and even if a country has arrears to the banks.

43. Net official development finance - grants plus net official credits - was virtually at the same level in 1989 as in 1980. The recovery of investment in Africa and Latin America and the consolidation of the vigorous capital accumulation in Asia of recent years will require a substantial increase in net official flows to support internal savings mobilization efforts. In the case of least developed

countries and other low-income countries, mostly in Africa, ODA is particularly important to narrow the gap in foreign exchange and savings required to resume growth and increase investments. In other developing countries, official flows remain critical during this period of foreign exchange stringency. The imported component of investments in machinery and equipment tends to be quite high in middle-income developing countries and such investments are a sine qua non for the transformation of productive structures and to increase export potential. It is only after growth has been restored and exports have achieved a certain momentum that private capital - foreign direct investment and commercial bank flows - are likely to again play a significant role in the development process.

Notes

1/ E/1990/55.

2/ E/1988/64.

3/ The main United Nations Secretariat documents that contain analyses and policy recommendations regarding the net transfer are: Net transfer of resources from developing to developed countries. Report of the Secretary-General, 13 May 1987 (A/42/272); Net transfer of resources from developing to developed countries. Report of the Secretary-General, 22 June 1988 (E/1988/64); World Economic Survey 1985 (United Nations publication, Sales No. E.85.II.C.1), pp. 57-59; World Economic Survey 1986 (United Nations publication, Sales No. E.86.II.C.1), in particular annex III, "Definition and measurement of the net transfer of resources"; World Economic Survey 1989 (United Nations publication, Sales No. E.89.II.C.1), chaps. IV and VIII; World Economic Survey 1990 (United Nations publication, Sales No. E.90.II.C.1), chap. IV; External debt crisis and development. Report of the Secretary-General, 16 October 1989 (A/44/628); Debt and managing adjustment: attracting non-debt-creating financial flows and new lending. Report by the UNCTAD Secretariat, 19 February 1990 (TD/B/C.3/234); and Economic Commission for Latin America and the Caribbean, Latin America and the Caribbean: options to reduce the debt burden. Santiago, Chile, 19 March 1990 (LC/G.1605 (SES.23/5)).

4/ OECD, Financing and External Debt of Developing Countries (Paris, 1990).

5/ According to the World Bank "the additional burden of high real interest rates, in relation to their 1963-80 average, was roughly $8 billion a year for Latin America during the 1980s, or close to 1 per cent of the region's GDP. ... The cumulative shock to Sub-Saharan Africa and South Asia was milder - less than one-third of that experienced in Latin America" (World Development Report 1990, p. 15).

6/ World Bank Debt Tables 1989-90, vol. 1, p. 78.

Notes (continued)

7/ In relation to the International Monetary Fund, there is a net negative flow since 1986. In reference to the World Bank, the net capital flow remains positive. However, this is due to International Develoment Association (IDA) loans, whereas the net transfer of resources of IBRD, the non-concessional lending of the World Bank, is negative since 1988 (World Economic Survey 1989 (United Nations publication, Sales No. E.89.II.C.1), pp. 62-66, and World Economic Survey 1990 (United Nations publication, Sales No. E.90.II.C.1), pp. 84-87). For Latin America and the Caribbean, the net transfer of resources with multilateral lenders was negative to the tune of $2.3 billion in 1987 and $2.9 billion in 1988. See Economic Commission for Latin America and the Caribbean, Latin America and the Caribbean: options to reduce the debt burden, LC/G.1605 (SES.23/5), Santiago, Chile, 1990, p. 73.

8/ World Debt Tables 1989-90, First Supplement, p. 4.

9/ A recent account of the state of the controversy on secular trends in terms of trade appears in Ronald Findlay, "Terms of trade" and in H. W. Singer, "Terms of trade and economic development", both entries of The New Palgrave: A Dictionary of Economics, John Eatwell, Murray Milgate and Peter Newman, eds. (The Macmillan Press, London, 1987).

10/ Net transfer of resources from developing to developed countries, Report of the Secretary-General, 22 June 1988 (E/1988/64).

11/ The reason for applying the terms-of-trade changes in every year always to the exports of 1980, as done in tables 4 and 5, is to isolate the impact of the price changes and avoid the paradoxical result obtained when using the current exports in each year, namely, that the losses from an unfavourable change in terms of trade are larger the more successful the export drive as assessed by the increase in the volume exported. Alternatively, for the individual country studies in the annex, similar calculations of the trade gains or losses are done using the value of exports of every year, which also reveals the success or failure in increasing export earnings in each case.

12/ See Africa's commodity problems: towards a solution. A report by United Nations Secretary-General's Expert Group on Africa's Commodity Problems chaired by Malcolm Fraser (UNCTAD/EDM/ATF/1), 1990. Confirming the particularly unfavourable price movements for Africa, surprising evidence was presented recently that African importers have been subjected to overpricing of their imports in comparison to world prices paid by other countries. This has been clearly documented in Alexander J. Yeats, Do African Countries Pay More for Imports? Yes (PPR Working Papers WPS 265, The World Bank, September 1989).

13/ Economic Commission for Latin America and the Caribbean, Latin America and the Caribbean: Options to Reduce the Debt Burden (Santiago, Chile, 19 March 1990 (LC/C.1605 (SES.23/5)), annex 1.

Notes (continued)

14/ See Helmut Reisen and Axel Van Trotsenburg, Developing Country Debt: The Budgetary and Transfer Problem (Paris, OECD Development Centre, 1988), pp. 24-26.

15/ The rapidity of the shift obviously varies according to the period chosen for comparison. In comparing the average 1980-1981 to the average 1983-1985, and using a similar definition of the transfer, the OECD Development Centre study found in general a heavier shift than that indicated here (see Reisen and Van Trotsenburg, op. cit., p. 25).

16/ See Vito Tanzi, Fiscal policy and economic reconstruction in Latin America, unpublished manuscript, International Monetary Fund, 2 November 1989, p. 12.

17/ Using a formal model, Edmar Bacha analyses the chain of reaction between the net foreign transfers and domestic factors that bring about a situation in which government budget limitations become the main source of growth (and inflation) difficulties. At the point of accelerated inflation, an expansion of the primary budget surplus in current account and a reduction of money printing is a necessary course of action, but may face significant domestic political resistance. Conditional external debt relief might provide the necessary incentive for such fiscal austerity measures. See Edmar L. Bacha, "A three-gap model of foreign transfers and the GDP growth rate in developing countries", Journal of Development Economics 32 (1990), pp. 279-296.

18/ See Debt and Managing Adjustment: Attracting Non-debt Creating Financial Flows and New Lending, Report by the UNCTAD secretariat (TD/B/C.3/234), in particular p. 16 and table 3.

19/ As noted by Tanzi, domestic financing has become very expensive financing and the cost of providing public services has risen sharply. See Vito Tanzi, op. cit., p. 10.

20/ See Bacha, op. cit., p. 295.

21/ Investment ratio figures from CEPAL, "Changing production patterns with social equity" (LC/G.1601 (SES.23/4)) 19 March 1990 and IMF, World Economic Outlook April 1988 and May 1990.

22/ See 1989 Report on the World Social Situation, annex (United Nations publication, Sales No. E.89.IV.1) and Supplement to the 1989 Report on the World Social Situation, Report of the Secretary-General, 16 March 1990 (A/45/137), chap. III.

Notes (continued)

23/ A recent study which measures the United States manufacturing trade balance with Latin America estimated that the large bilateral United States surplus shrank from $18.6 billion in 1980-1981 to $1.2 billion in 1987. According to the study, the large decline in investment in Latin American has adverse repercussions on United States exports of capital goods. It notes that "unless and until there is an alternative debt strategy that provides Latin America with the resources to service their debts, their trade surpluses will not vanish. In this sense, the debt problem is also a problem of U.S. manufacturing" (emphasis added). See Meeting World Challenges: U.S. Manufacturing in the 1990s, by Rudiger Dornbusch, Paul Krugman and Yung Chul Park (Eastman Kodak Company, Rochester, 1989).

24/ General Assembly resolution S-18/3 of 4 June 1990, paras. 8 and 9.

ANNEX

Individual country instances of the net transfer

1. The present annex contains estimates of the gains (losses) from trade, changes in financial transfers and their combined effect on domestic resource availability for eight indebted countries - Brazil, Côte d'Ivoire, Hungary, Indonesia, the Republic of Korea, Mexico, Nigeria and Poland - as well as short notes on their experience during the 1980s.

2. The gains (losses) from trade for each year are calculated as the product of the value of exports in that year by the percentage gain (loss) on the terms of trade, taking 1980 as the base year. As 1980 is an arbitrarily chosen base, the gains (losses) from trade are not to be interpreted as the approximation of a secular trend, but simply as the most direct effect on the country of the changes in international terms of trade that occurred in the past decade.

3. The financial transfers are calculated according to the definition of "transfer on expenditure basis" of the Department of International Economic and Social Affairs of the United Nations Secretariat. (See World Economic Survey 1990, chap. IV, box IV.1: Measuring the net transfer of financial resources of developing countries).

4. The combined effect is the algebraic sum of the gains (losses) from trade and the financial transfers. Finally, the three variables are related to the GDP in 1985, estimated at constant 1980 prices, obtaining ratios which constitute an approximation of the order of magnitude of the shocks. A ratio to the 1985 GDP has been preferred because year-by-year GDP values in current dollars are distorted by the strong exchange rate fluctuations in the past decade. The corresponding estimates are shown in the country tables at the end.

5. According to the country data presented, the combined effect of the losses from trade and of negative financial transfers have been very strong, although the relative weight of the two shocks varies from country to country. The common and exogenous features of the various national experiences become apparent when they are examined together: commodity prices, dynamism of world markets, and the increase in international interest rates were all factors beyond the individual countries' control, and their changes had not been correctly forecast. Nevertheless, the same trends in the world economy had different impacts in different countries, according to their financial and economic conditions at the time of the shocks, the adequacy of their policy responses, and the flexibility in their productive structure.

6. The changes in international terms of trade have been most disruptive in those countries that depend on one or a few primary commodity exports and were not capable of diversifying their export composition towards manufactures (see figure 1). The two African countries in the sample are cases in point. The experience of the Republic of Korea and Indonesia have been quite different. The Republic of Korea was already a net manufacture exporter and a net primary

commodity importer in the 1970s, hence its terms of trade improved in the 1980s. Indonesia did suffer a severe terms-of-trade deterioration during the second half of the decade, but was able to increase the volume of exports and to shift their composition away from oil and towards manufactures. As opposed to Nigeria and Côte d'Ivoire, the Eastern European and Latin American countries considered in this annex had a relatively developed industrial base, and tried to expand their non-traditional exports, obtaining important but insufficient results. Owing partly to the legacy of past anti-export biases in their industrialization policies, they did not manage to increase exports rapidly enough to accompany the shift in the financial flows, and were forced to curtail imports, thus hampering growth and capital accumulation.

7. The magnitude of the shocks and the rapidity of the required adjustment presented an impossible task for some countries. On the other hand, the level of negative financial transfers, as well as that of the gains or losses from trade, differed markedly from one country to another. The impact of the evolution of the international financial market, which shifted from a borrowers' market in the 1970s to a lenders' market in the 1980s, was related to the size and structure of each individual country's debt. The ratio of the outstanding debt to GDP and exports, the relative weight of concessional and commercial, private and official loans, their maturity and the conditions attached to their repayment all influenced the amount of negative financial transfers. Also important was the ability on the part of the various countries to obtain relatively favourable agreements during the successive rescheduling negotiations and to influence and/or control private capital movements to avoid capital flight and to foster capital inflows.

Brazil

8. Net financial transfers from Brazil went up in 1984-1985 to a level of $11 billion, more than 4 per cent of GDP, and then reached a still higher level of almost $17 billion in 1988, more than 6 per cent of GDP. As the net financial transfers became increasingly negative, investment declined from an average of 22.5 per cent of the GDP in the second half of the 1970s to about 16.5 per cent in 1984-1985 (see table A.1).

9. A major component of the financial transfer was net interest payment, which increased sharply in 1981 to over $9 billion (from $6.3 billion in 1980), and climbed to a record of over $11 billion in 1982. Thereafter, it has been fairly stable, fluctuating around a level of $10 billion, falling below $9 billion only in 1987, reflecting lower world interest rates. The reversal in the direction of long-term capital flows (other than direct investment), dwindling short-term capital flows (especially in 1983-1984) and the increase in capital flight in some years also contributed negatively to the financial position of the country.

10. A sizeable terms-of-trade shock hit Brazil at the beginning of the decade owing to the decline in the price of major agricultural exports, mainly coffee, and to the increase in oil prices. In 1982 and 1983, Brazil's terms of trade kept on deteriorating. The value of exports reached its nadir in 1982, the only year of the decade when exports failed to grow in real terms. The subsequent years saw a gradual recovery of both terms of trade and the global value of exports, thanks to

the progressive shift of their composition towards manufactures, whose share increased to over 50 per cent since 1987, up from slightly over 30 per cent in 1980. Thus, in 1988 the volume of Brazilian exports was almost double that of 1980, although their purchasing power had increased less than 80 per cent.

11. Despite declining terms of trade, trade surpluses were quickly generated and increased from about $1 billion in 1982 to $13 billion in 1984. In 1988 it reached a record of $19 billion. The improvement in the trade balance, however, was obtained mainly through a reduction in aggregate demand, real exchange rate depreciation and drastic import cuts, particularly during the first half of the 1980s. Real GDP growth declined from an annual rate of 8.5 per cent in the 1970s to 2.6 per cent during 1981-1989.

12. The combined magnitude of the change in the terms of trade and financial transfers, modest in 1981 and 1982 when the financial component was still positive, climbed to over $15 billion per year in 1984-1985, declined in 1986 and 1987 and jumped again to a record of almost $20 billion in 1988. In 1989 it declined, but was equivalent to a reduction in domestic resource availability on the order of 5 per cent of GDP.

Côte d'Ivoire

13. The terms of trade of Côte d'Ivoire declined in the early 1980s, recovered partially in 1984-1986 and fell sharply in 1987-1989, following the unstable and deteriorating fortunes of its two main traditional tropical exports: cocoa and coffee. Cocoa, in particular, generates more than half of total Ivorian exports. Its price started to fall in 1984 and by 1989-1990 it had more than halved. Thus, the impact of the change in the terms of trade for Côte d'Ivoire has been strongly negative for the decade as a whole, constituting a decisive factor leading the country to the present severe crisis. The forced reduction in the domestic absorption is reflected in the dramatic decline of the investment ratio which was halved between 1981 and 1984 and has stagnated at 10 per cent of the GDP since then, thus jeopardizing future growth prospects. GDP had been falling in the early 1980s and again since 1987, and a further serious drop is forecast for 1990, the fourth consecutive year of negative growth. Meanwhile, real wages and the standard of life of the majority of the population deteriorated severely.

14. Côte d'Ivoire incurred sizeable external borrowing in the late 1970s, when the commodity export boom gave it ample credit in the international financial markets. Hence, it started the decade with debt equivalent to nearly 60 per cent of GNP. In 1982, it was already equal to GNP. Debt service absorbed almost half of the export earnings in 1983. The country was still experiencing positive net financial transfers, but rescheduling was inevitable.

15. Agreements with the Paris Club and with commercial banks in 1984 led to a momentary fall in the debt-service ratio and to new credits from multilateral and commercial banks. In spite of the relief, net financial transfers turned negative in 1984-1986. In mid-1986, Côte d'Ivoire reached a new agreement with both official and commercial creditors, easing the repayments schedule up to 1989. However, these new conditions proved to be impossible to meet in 1987, owing to the

continuous worsening of the terms of trade. The Government thus suspended debt payments, leading eventually to further and more favourable rescheduling with the Paris and London Clubs in 1987-1988. Even so, arrears on debt payments occurred again, jeopardizing the willingness of the World Bank and IMF to resume their lending. The net result of this multiple rescheduling process so far has been a precarious renovation of the positive net financial transfers towards Côte d'Ivoire, accompanied by a large increase of its external debt.

16. The effect on domestic resource availability of the persistently negative gains from trade and the alternate trends of financial transfers shows large year-to-year variations. In 1981-1983, when net financial transfers were positive, the combined effect was also positive or negligible. When the financial component became negative in 1984-1986, the total adverse shock was very strong, on the order of 11 per cent of GDP in 1985. In 1988 and 1989, financial transfers became positive again, thus softening the impact of the continuing deterioration of the terms of trade (see table A.2).

Hungary

17. Hungary has been making a net outward transfer of financial resources during the 1980s (see table A.3). This negative transfer followed a period of substantial positive transfers in the late 1970s, financed by what proved to be unsustainable rates of borrowing from international financial markets. The required export increase reduced domestic absorption and investment rates were slated. Gross fixed capital formation declined from 26.5 per cent of the GDP in 1981 to 22.5 per cent in 1985. A shift in the allocation of output from domestic markets towards exports, reduction of imports, and the use of the national foreign exchange reserves were opted for. Most of the export increases were provided by agricultural commodities and raw materials, while changes taking place in the structure of production, in technologies and in the incentives mechanism were not sufficient to lay the foundation for a rapid and sustained export growth. Accordingly, the economy failed to grow in 1985. Since the quantum of imports is closely related to domestic spending, the short-term adjustment between 1980 and 1985 was based consequently on import-reduction policies.

18. From 1986, however, with the beginning of a new five-year plan, an acceleration of economic growth immediately worsened the balance of trade, and new credits were needed to finance a substantial negative balance of payments: the gross international debt increased from $8.8 billion at end-1984 to over $20 billion at end-1989. Higher investment in 1986 generated increasing financing needs, and, in turn, the increase in external borrowing in a shortage-ridden economy (with plenty of bottle-necks) deepened the external disequilibrium, requiring subsequently stronger adjustment eforts. From 45 per cent of GNP in 1980, total external debt increased to 76 per cent of GNP in 1987, and declined only in 1988.

19. Substantial deterioration in the terms of trade contributed to a rise in the ratio of debt service to export revenue. The ratio of outstanding net debt to exports to the market economies also worsened: in 1985 it was 173 per cent, in 1988, 310 per cent. Overall, debt service absorbed an increasing share of export

revenues until 1987. Net interest payments became the dominant factor of the negative financial transfer in the 1980s.

20. Deteriorating terms of trade and declining or negative financial transfers contributed to a decline in the investment ratio in the 1980s. The revitalization of the Hungarian economy, given the high share of exports in domestic production, depends on a rapid expansion in exports of goods and services (mainly tourism). To achieve this, substantial structural change in favour of tradable goods is needed. In addition to this, favourable trade conditions and financial support remain essential.

Indonesia

21. In 1981, Indonesia had a large net negative financial transfer, which was very much the counterpart of very large trade surpluses obtained from the hike in oil prices. This negative transfer did not represent hardship for a country as it could be financed by a very substantial gain in terms of trade. It is certainly different from a situation in which the trade surplus has to be obtained at the cost of slashing imports. In 1981 Indonesia's imports did grow at the high speed of 32 per cent. As world demand for petroleum weakened and as drought conditions affected the agricultural sector in 1982, revenues from both oil and non-oil exports declined. Indonesia's external resource situation deteriorated as the current account deficit grew dramatically to $5.5 billion in 1982 and more than $6 billion in 1983. As a result, Indonesia borrowed substantially from foreign sources and drew upon its reserves to finance its current account deficit. In 1983, the net financial transfer to Indonesia reached $2.7 billion. In 1984-1985, net financial transfers from Indonesia averaged about $1.9 billion. Severe import restriction measures began to take effect, which affected investment levels but led to the improvement of the current account deficit to an average of $2 billion for the period. GDP growth rate, however, was only 1.9 per cent in 1985, the lowest of the decade. Net interest payments would rise steeply to $1.3 billion. In 1986, net financial transfers became positive again, coming to nearly $900 million. In the period 1987-1989, net financial transfers became negative mainly owing to net interest payments that rose from $2.3 billion in 1987 to $3.1 billion in 1989. Nevertheless, at the end of the decade economic growth recovered, partly as the favourable effects of Indonesia's diversification programme from oil to non-oil exports began to be felt.

22. Up until 1986, Indonesia's terms of trade were determined to a large degree by the movement in the international price of oil. In 1980, the oil and gas sector accounted for 80 per cent of foreign exchange earnings. By 1987, earnings from non-oil exports had outpaced those from oil, and presently they account for more than 60 per cent of total export receipts. As world oil prices slumped in 1986, world prices of wood and rubber recovered. What is remarkable is that Indonesia managed to diversify considerably its exports. Most of the additional earnings from non-fuel exports came from the export of industrial products, in particular, wood products, garments and textiles. However, persistently lower prices of oil, which still accounts for some 40 per cent of total export receipts, continued to be a drag on Indonesia's terms of trade as are the erratic changes in the prices of some commodities. The terms-of-trade deterioration, though having a negative

impact on the economy, was better absorbed by Indonesia than elsewhere. Between 1984 and 1989, the terms of trade fell by more than 40 per cent, whereas the investment ratio declined only by a few percentage points.

23. In the early part of the 1980s, the combined effect of the changes in the net financial transfers and in the terms of trade produced an increase in total resource availability. The gains from trade were significant up to 1984. However, the combined effect turned negative in 1984, the last year of recorded gains from trade, and stayed negative for the rest of the decade (see table A.4).

Mexico

24. Net financial transfers from Mexico have been negative since 1982. They peaked in 1984 at $14 billion, more than 7 per cent of the GDP. As is the case for most highly indebted countries, especially in Latin America, this negative trend was caused mainly by the virtual suspension of new lending and the rise in interest payments. Capital flight initially also contributed to the higher levels of the net negative financial transfer. From 1985 on, the outflow of financial resources declined due to the relatively lower interest rates and the reschedulings of the Mexican debt. By the end of the decade, they were about $5 billion or 2.5 per cent of the GDP.

25. In order to adjust to the new economic environment of the early 1980s, Mexico adopted very tight fiscal and monetary policies and a more realistic exchange rate so that trade surpluses could be generated. While the trade balance position already improved considerably in 1983, the country experienced a severe recession in the year with investment reduced to 17 per cent of the GDP from 27 per cent in 1981, and the economy contracted by 4.2 per cent.

26. The Mexican economy was also to be severely affected by the instability of oil prices which essentially determine the evolution of Mexico's terms of trade. In 1986, oil prices plunged by 50 per cent. This fact implied a severe blow to the Mexican economy whose dependence on the oil sector for both government and export revenues was still considerable despite diversification efforts. GDP contracted by 3.8 per cent and investment was further reduced.

27. Lately, however, Mexico has relied less on oil. The continuous fall in the oil share in total Mexican exports is due both to a price and quantity effect, as the importance of manufactured exports has been growing steadily. Manufactures generated more than 50 per cent of the country's exports in 1989. Mexico's terms of trade, however, have not yet recovered. Compared to its 1980 levels, the country is still incurring losses from trade at about 4 per cent of its GDP.

28. For the Mexican economy, the combined result of financial transfer and changes in the terms of trade has been considerable. It represents a sizeable reduction in domestic resource availability. It peaked in 1984, at a level of almost $18 billion, close to 9 per cent of the GDP. It was still 7 per cent of GDP in 1989 (see table A.5).

Nigeria

29. Owing to the narrowness and fragility of its industrial base, Nigeria has not been in a position to substitute manufactured exports for hydrocarbons as a major source of foreign exchange, at a time of severely depressed world oil prices. Indeed, its overwhelming dependence on oil exports did not diminish over the 1980s. Other traditional exports whose production was partially revived in recent years, such as cocoa and coffee, faced unfavourable world market conditions. Thus, Nigeria's terms of trade underwent a deterioration since 1982. In 1989 conditions improved only marginally, as a recovery of oil exports, both in prices and quantity, was partially marred by a collapse of non-oil exports: as a result, Nigeria is presently more dependent than ever on oil.

30. Nigeria's heavy borrowing took place at a relatively late stage. Starting in 1978, it acquired major proportions in the early 1980s. As a result, in 1981-1983 Nigeria experienced a significantly positive net financial transfer. As repayments matured, oil receipts plummeted and private capital increasingly flew from the battered Nigerian economy; the country's financial situation became precarious. Financial net transfers turned negative from 1984 on, in spite of arrears, and in 1986 the collapse of oil export revenues to about a quarter of their 1980 level forced the Government to adopt a structural adjustment programme and to seek debt rescheduling. Protracted rescheduling negotiations took place, but the persistence of domestic crisis, low world oil prices and high international interest rates led to a continuous increase of debt-service obligations, projected to grow to almost $5 billion in 1991. Rescheduling took place again in the first months of 1989, leading to a new agreement at more favourable conditions: all the multilateral debt is now to be repaid over 20 years, with three years' grace. Another $12 billion debt with the Paris and the London Clubs had been already rescheduled. Notwithstanding these agreements and the partial recovery of oil exports, in 1989 Nigeria again experienced a negative financial transfer. Debt-servicing, however, is still a significant component of the country's financial transfers and reached $1.75 billion in 1989, according to preliminary estimates by the World Bank.

31. Total transfers to Nigeria were positive and substantial in 1981 and 1982, thanks to both their financial and trade-related components. When terms of trade started deteriorating in 1983, they were still more than compensated by financial transfers; but from 1984 on, both components turned negative, resulting in a reduction of domestic resource availability of more than $5 billion annually, on average, for the period 1985-1988 (see table A.6).

32. Negative net financial transfer and deteriorated terms of trade implied a reduction of the investment ratio which, in the late 1980s, was only a third of its 1981 level. GDP grew at negative rates for most of the decade. A modest recovery took place in 1988-1989, which is expected to continue in the short run. But the growth rates achieved so far have been barely sufficient to avoid a fall in the GDP per capita, which has already shrunk to a level close to that of the 1960s.

Poland

33. In the 1970s, Poland attempted to boost the country's economy with substantial increases in investment on the basis of, inter alia, ample use of foreign credits. The country's gross debt with market economies increased more than twentyfold between 1970-1980, from $1.2 billion to $24.1 billion. Only about one third of this debt was accumulated with commercial banks, the rest was with foreign Governments. With about 50 per cent of its liabilities coming due in 1979 and 1980, nothing short of a total ban on hard currency imports combined with sustaining the same value of exports could have produced the cash flow necessary to keep Poland afloat in 1980. New credits were short of filling the resource gap and in March 1981, the Government announced a moratorium on debt payments. The stage was set for a debt crisis. Rescheduling followed, with subsequent debt reschedulings in later years.

34. Between 1981 and 1988 Poland made net outward transfers of financial resources in the amount of $11 billion (see table A.7). After rescheduling, Poland relied on the extensive use of administrative measures to slash imports, in particular those of machinery and equipment, and thereby to reduce domestic absorption rates. Exports, however, could not be significantly expanded. Only from 1987 on did exports recover somewhat. The cumulative current account balance was a negative $15 billion, mostly due to the negative service balance. Given the high and increasing indebtedness, debt-service payments became a main factor in the development of the overall balance-of-payments positions.

35. Deteriorating terms of trade and increasing negative financial transfers abroad are among the reasons for the lower investment ratios throughout the 1980s. In late 1989, faced with declining production in industry and weak agricultural performance, serious supply shortages due to import cuts, slow export growth and high inflation, the authorities decided to implement an austerity programme. This programme aims at stabilization and reform of the domestic economy by strengthening the role of market forces. IMF is supporting the programme with a stand-by arrangement.

36. Financing arrangements for the 1990s start with an exceptional $9.4 billion debt-rescheduling agreement with the Paris Club. The accord includes accumulated debt-service arrears as of end-1989 and all interest and principal remittances due between now and the end of March 1991. Payments are to be suspended for eight years, then spread out over six years. There might be some debt forgiveness as well. Thus, it is expected that the net negative financial transfer will be reduced in the 1990s.

Republic of Korea

37. Net financial transfers to the Republic of Korea were $3.7 billion in 1980, dropped to $2.2 billion in 1981, and fell to virtually nil in 1982. During that period, the current account deficit was halved from $5.4 billion to $2.7 billion, and net interest payments rose from $2.1 billion to $3.1 billion. For the remainder of the 1980s, net financial transfers from the Republic of Korea increased rapidly from almost $700 million in 1983 to around $15 billion in 1988.

In 1983-1985, the deficit on the current account narrowed from $1.6 billion to less than $1 billion, and net interest payments averaged around $3 billion. In 1986, net financial transfers from the country almost quadrupled to $6.7 billion as the current account swung from a deficit of almost $1 billion to a $4.5 billion surplus. For the next two years, continued large trade surpluses made possible increasing net financial transfers from the Republic of Korea. Since 1987, the country has accelerated its external debt repayments and it is expected to become a net creditor country by the early 1990s. Total external debt stood at $40.5 billion in 1987, was down to $28.9 billion in 1989 and is estimated to decrease further to $27 billion in 1990. The accelerated debt repayment programme has contributed to the large net negative transfer of recent years (see table A.8).

38. The country's terms of trade have remained relatively neutral during the first half of the decade. Being an oil importer, the country has realized considerable terms of trade gains since 1986. The domestic savings ratio, already high in the last years of the 1970s, increased again in the second half of the 1980s. Domestic savings have been above 30 per cent of GDP since 1984, and were approaching 40 per cent in 1988. Thus, the increase in the net transfer abroad was matched by a rise in domestic savings.

39. Rapid wage increases since 1987 (at annual rates of 10-20 per cent), together with sluggish productivity growth, resulted in large rises in unit labour costs which were significantly higher than the country's major competitors. Furthermore, the won appreciated 28 per cent and 32 per cent in nominal and real terms, respectively, between early 1988 and the middle of 1989. The overall result was a considerable drop in the current account surplus to $5.8 billion and a corresponding fall in the net financial transfer out of the Republic of Korea in 1989.

40. Thanks mainly to the effective utilization of borrowed funds in the creation of export capacity in the manufacturing sector, the Republic of Korea was able to continue on a path of higher investment rates and fast economic growth during the 1980s. Gross fixed capital formation increased during the decade while GDP grew at an annual average rate of more than 8 per cent between 1981 and 1989.

Table A.1. Brazil: resource transfer

(Billions of dollars and percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Exports	23.3	20.2	21.9	27.0	25.5	22.5	26.2	33.4	34.7
Terms of trade, 1980=100	85	80	78	85	83	97	87	92	87
(GDP in 1985: $258 billion)									
Gains/losses from trade	-3.5	-4.1	-4.9	-4.0	-4.4	-0.7	-3.4	-2.7	-4.5
Share in GDP	-1.4	-1.6	-1.9	-1.6	-1.7	-0.3	-1.3	-1.0	-1.7
Net financial transfer	1.6	2.8	-4.1	-11.4	-10.7	-5.9	-8.3	-16.9	-10.2
Share in GDP	0.6	1.1	-1.6	-4.4	-4.1	-2.3	-3.2	-6.6	-4.0
Impact on total domestic resource availability	-1.9	-1.3	-9.0	-15.4	-15.1	-6.6	-11.7	-19.6	-14.7
Share in GDP	-0.7	-0.5	-3.5	-6.0	-5.9	-2.6	-4.5	-7.6	-5.7
Memorandum items:									
GDP growth in constant prices	-3.4	0.6	-3.4	5.1	8.4	7.5	3.7	-0.3	3.0
Gross fixed capital formation in GDP	21.0	19.5	16.9	16.2	16.7	19.0	18.3	17.6	17.7

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

Table A.2. Côte d'Ivoire: resource transfer

(Billions of dollars and percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988
Exports	2.4	2.3	2.1	2.6	2.7	3.2	3.1	2.4
Terms of trade, 1980=100	89	81	77	86	85	88	78	75
(GDP in 1985: $10.3 billion)								
Gains/losses from trade	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.7	-0.6
Share in GDP	-2.6	-4.2	-3.9	-3.5	-3.9	-3.7	-6.6	-5.8
Net financial transfer	0.9	0.5	0.4	-0.4	-0.7	-0.3	0.0	0.5
Share in GDP	8.7	4.9	3.9	-3.9	-6.8	-2.9	0.0	4.9
Impact on total domestic resource availability	0.6	0.1	0.0	-0.8	-1.1	-0.7	-0.7	-0.1
Share in GDP	6.2	0.6	0.0	-7.4	-10.7	-6.6	-6.6	-1.0
Memorandum items:								
GDP growth in constant prices	1.2	-3.3	-1.0	-4.8	5.0	4.0	-6.1	-3.2
Gross fixed capital formation in GDP	20.0	16.9	14.7	9.4	10.3	9.4	9.7	10.1

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

Table A.3. Hungary: resource transfer

(Billions of dollars and percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988
Exports	8.9	9.1	8.9	8.8	8.9	9.1	9.8	10.3
Terms of trade, 1980=100	96.7	94.5	92.5	89.7	89.6	86.4	87.4	89.6
(GDP in 1985: $20.7 billion)								
Gains/losses from trade	-0.3	-0.5	-0.7	-1.0	-1.0	-1.2	-1.2	-1.1
Share in GDP	-1.4	-2.4	-3.4	-4.8	-4.8	-5.8	-5.8	-5.3
Net financial transfer	-0.2	-0.5	-0.7	-1.1	-0.7	0.4	-0.3	-0.6
Share in GDP	-1.0	-2.4	-3.4	-5.3	-3.4	1.9	-1.4	-2.9
Impact on total domestic resource availability	-0.5	-1.0	-1.4	-2.1	-1.7	-0.8	-1.5	-1.7
Share in GDP	-2.4	-4.8	-6.8	-10.1	-8.2	-3.9	-7.2	-8.2
Memorandum items:								
GDP growth in constant prices	2.9	2.8	0.7	2.7	-0.3	1.5	4.0	-0.1
Gross fixed capital formation in GDP	26.5	25.2	24.6	23.0	22.5	24.0	24.8	21.1

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on international sources.

Table A.4. Indonesia: resource transfer

(Billions of dollars and percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Exports	23.4	19.7	18.7	20.7	18.5	14.4	17.2	19.4	22.1
Terms of trade, 1980=100	111	111	103	105	98	64	68	59	60
(GDP in 1985: $93.7 billion)									
Gains/losses from trade	2.6	2.2	0.6	1.0	-0.4	-5.2	-5.5	-8.0	-8.8
Share in 1985 GDP	2.7	2.3	0.6	1.1	-0.4	-5.5	-5.9	-8.5	-9.4
Net financial transfer	-2.2	2.5	2.7	-2.1	-1.6	0.9	-1.4	-2.5	-1.7
Share in 1985 GDP	-2.3	2.7	2.9	-2.2	-1.7	1.0	-1.5	-2.7	-1.8
Impact on total domestic resource availability	0.4	4.7	3.3	-1.1	-2.0	-4.3	-6.9	-10.5	-10.5
Share in 1985 GDP	0.4	5.0	3.5	-1.1	-2.1	-4.6	-7.4	-11.2	-11.2
Memorandum items:									
GDP growth in constant prices	7.9	2.2	4.5	4.2	1.9	3.0	3.6	5.4	6.0
Gross fixed capital formation in GDP	22.7	24.1	23.7	21.0	19.2	19.1	19.3	17.7	n.a.

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

/...

Table A.5. Mexico: resource transfer

(Billions of dollars and percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Exports	20.0	21.2	22.3	24.2	21.7	16.0	20.6	20.6	22.7
Terms of trade, 1980=100	101	87	91	85	86	65	69	60	63
(GDP in 1985: $10.3 billion)									
Gains/losses from trade	0.2	-2.8	-1.9	-3.7	-3.0	-5.6	-6.4	-8.2	-8.4
Share in GDP	0.1	-1.5	-1.0	-1.9	-1.6	-2.9	-3.3	-4.2	-4.3
Net financial transfer	6.1	-6.1	-10.5	-14.1	-9.3	-5.9	-10.7	-4.4	-4.7
Share in GDP	3.1	-3.1	-5.4	-7.3	-4.8	-3.0	-5.5	-2.3	-2.4
Impact on total domestic resource availability	6.3	-8.9	-12.4	-17.8	-12.3	-11.5	-17.1	-12.6	-13.1
Share in GDP	3.2	-4.6	-6.4	-9.2	-6.4	-5.9	-8.8	-6.5	-6.8
Memorandum items:									
GDP growth in constant prices	8.8	-0.6	-4.2	3.6	2.6	-3.8	1.5	1.1	3.0
Gross fixed capital formation in GDP	26.5	22.2	16.6	17.0	17.9	16.4	16.1	16.9	17.8

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

Table A.6. Nigeria: resource transfer

(Billions of dollars and percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988
Exports	18.0	12.1	10.3	11.9	13.1	6.6	7.5	7.4
Terms of trade, 1980=100	114.0	107.0	95.0	95.0	93.0	51.0	57.0	45.0
(GDP in 1985: $66.1 billion)								
Gains/losses from trade	2.5	0.8	-0.5	-0.6	-0.9	-3.2	-3.2	-4.1
Share in GDP	3.8	1.3	-0.8	-0.9	-1.4	-4.9	-4.9	-6.2
Net financial transfer	5.5	6.1	3.5	-1.3	-4.0	-1.3	-2.7	-1.7
Share in GDP	8.3	9.2	5.3	-2.0	-6.1	-2.0	-4.1	-2.6
Impact on total domestic resource availability	8.0	6.9	3.0	-1.9	-4.9	-4.5	-5.9	-5.8
Share in GDP	12.1	10.5	4.5	-2.9	-7.4	-6.9	-9.0	-8.7
Memorandum items:								
GDP growth in constant prices	-5.9	-1.9	-6.4	-5.5	2.4	-5.0	-2.0	4.0
Gross fixed capital formation in GDP	22.1	16.4	13.3	7.7	8.4	8.9	8.1	7.4

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

Table A.7. Poland: resource transfer

(Billions of dollars and percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988
Exports	10.5	11.5	11.6	11.6	10.9	11.9	12.0	13.8
Terms of trade, 1980=100	92.3	86.8	84.6	82.7	84.6	84.1	85.8	87.7
(GDP in 1985: $79.0 billion)								
Gains/losses from trade	-0.8	-1.5	-1.8	-2.0	-1.7	-1.9	-1.7	-1.7
Share in GDP	-1.0	-1.9	-2.3	-2.5	-2.2	-2.4	-2.2	-2.2
Net financial transfer	1.1	-1.1	-1.2	-1.6	-1.6	-1.6	-2.5	-2.9
Share in GDP	1.4	-1.4	-1.5	-2.0	-2.0	-2.0	-3.2	-3.7
Impact on total domestic resource availability	0.3	-2.6	-3.0	-3.6	-3.3	-3.5	-4.2	-4.6
Share in GDP	0.4	-3.3	-3.8	-4.6	-4.2	-4.4	-5.3	-5.8
Memorandum items:								
Growth of GDP in constant prices	-10.0	-4.8	5.6	5.6	3.6	4.2	2.0	4.1
Gross fixed capital formation in GDP	18.7	20.1	20.1	20.7	21.3	21.9	22.6	22.5

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on international sources.

/...

Table A.8. Republic of Korea: resource transfer

(Billions of dollars and percentage of GDP)

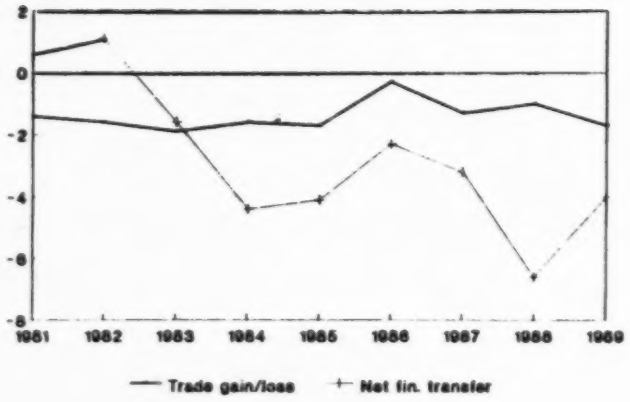
	1981	1982	1983	1984	1985	1986	1987	1988	1989
Exports	20.7	20.9	23.3	26.4	26.4	33.8	46.1	59.7	61.1
Terms of trade, 1980=100	98	100	101	98	100	106	106	109	105
(GDP in 1985: $90 billion)									
Gains/losses from trade	-0.4	0.0	0.2	-0.5	0.0	2.0	2.8	5.4	3.1
Share in 1985 GDP	-0.5	0.0	0.3	-0.6	0.0	2.3	3.1	6.0	3.4
Net financial transfer	2.2	0.0	-0.7	-1.4	-1.7	-6.7	-11.4	-14.8	-5.8
Share in 1985 GDP	2.4	0.0	-0.8	-1.6	-1.9	-7.4	-12.7	-16.4	-6.4
Impact on total domestic resource availability	1.8	0.0	-0.5	-1.9	-1.7	-4.7	-8.6	-9.4	-2.7
Share in 1985 GDP	2.0	0.0	-0.5	-2.1	-1.9	-5.2	-9.6	-10.5	-3.1
Memorandum items:									
GDP growth in constant prices	6.9	5.5	9.5	7.9	5.1	12.0	11.1	12.2	6.7
Gross fixed capital formation in GDP	28.8	29.6	31.2	31.5	30.9	30.4	32.0	32.1	n.a.

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

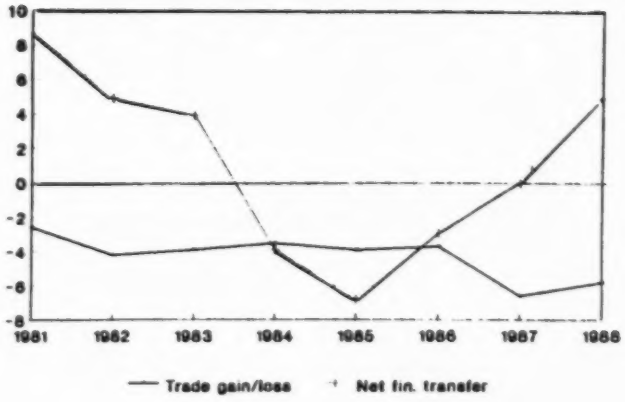
/...

Figure 1. Selected developing countries: resource transfer, percentage of GDP

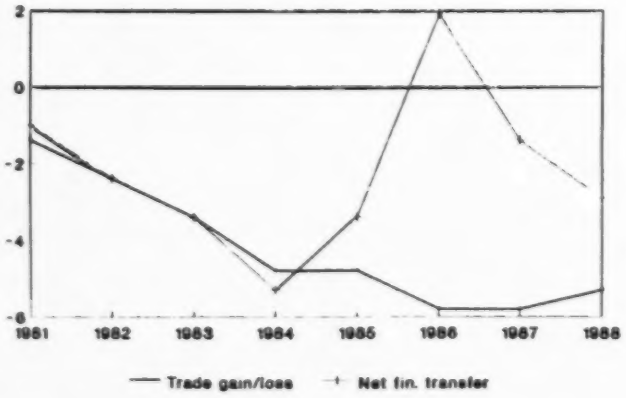
BRAZIL



COTE D'IVOIRE



HUNGARY



INDONESIA

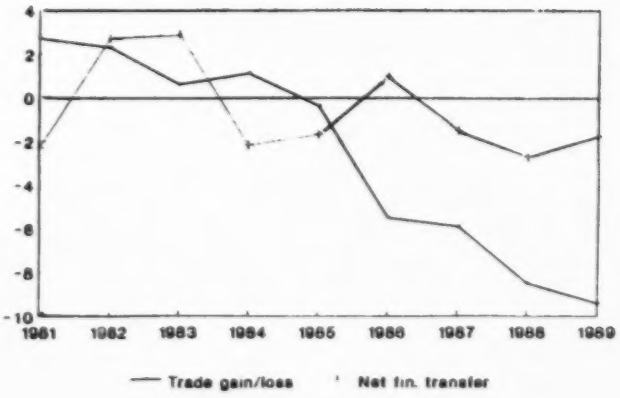
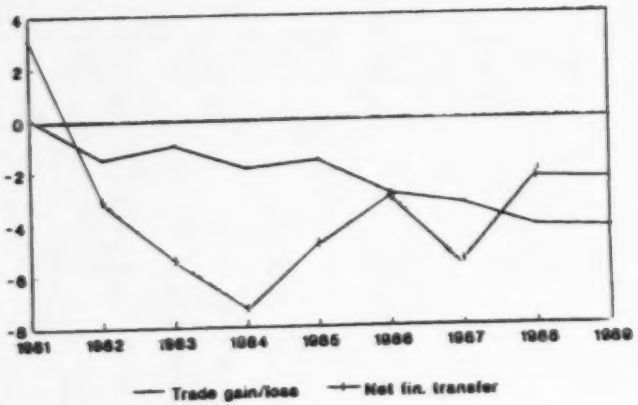
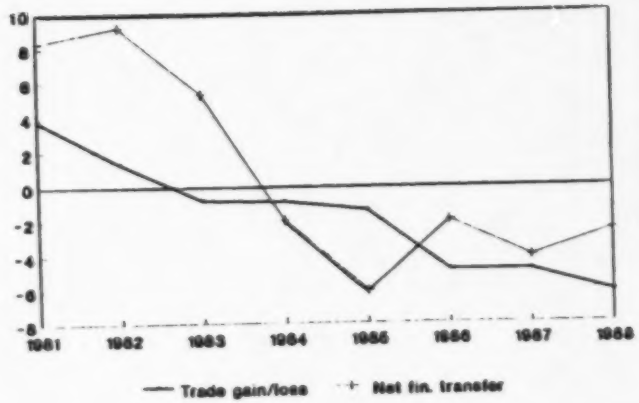


Figure 1 (continued)

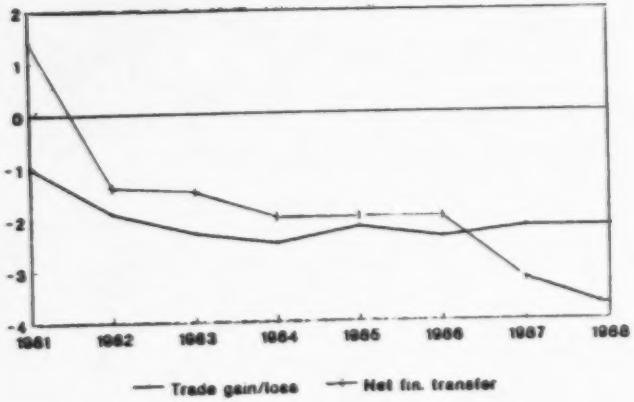
MEXICO



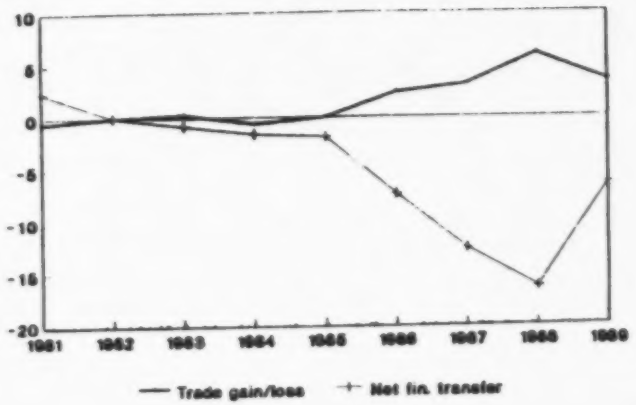
NIGERIA



POLAND



REPUBLIC OF KOREA



Source: Department of International Economics and Social Affairs of the United Nations Secretariat.

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A

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Agenda item 103

IMPORTANCE OF THE UNIVERSAL REALIZATION OF THE RIGHT OF PEOPLES TO SELF-DETERMINATION AND OF THE SPEEDY GRANTING OF INDEPENDENCE TO COLONIAL COUNTRIES AND PEOPLES FOR THE EFFECTIVE GUARANTEE AND OBSERVANCE OF HUMAN RIGHTS

The use of mercenaries as a means to violate human rights and to impede the exercise of the right of peoples to self-determination

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly, in accordance with General Assembly resolution 44/81, of 8 December 1989, and paragraph 19 of resolution 1990/7 of the Commission on Human Rights, adopted on 19 February 1990, the preliminary report prepared by Mr. Enrique Bernales Ballesteros (Peru), Special Rapporteur on the question of the use of mercenaries.

Annex

PRELIMINARY REPORT ON THE QUESTION OF THE USE OF MERCENARIES AS A MEANS OF VIOLATING HUMAN RIGHTS AND IMPEDING THE EXERCISE OF THE RIGHT OF PEOPLES TO SELF-DETERMINATION, SUBMITTED BY THE SPECIAL RAPPORTEUR OF THE COMMISSION ON HUMAN RIGHTS

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I. INTRODUCTION

1. At its forty-third session, the Commission on Human Rights adopted resolution 1987/16, whereby a Special Rapporteur was appointed to examine the question of the use of mercenaries as a means of violating human rights and impeding the exercise of the right of peoples to self-determination. Subsequently, on 3 September 1987, the appointment was announced of Mr. Enrique Bernales Ballesteros (Peru) as Special Rapporteur of the Commission on the question of mercenaries.

2. Since then, the Special Rapporteur has submitted five reports to the Commission on Human Rights and the General Assembly giving an account of his activities, his visits to date to Angola, Nicaragua and the United States of America and methodological developments in the concept of mercenarism (as a generic term including all mercenary operations and the existence of a causal agent) and that of a mercenary (as an individual accountable at the level of execution).

3. On 8 December 1989, the General Assembly adopted resolution 44/81 in which it condemned mercenary practices aimed at overthrowing the Governments of States in southern Africa, Central America and other developing States and fighting against national liberation movements of peoples struggling for the exercise of their right to self-determination (para. 2 of the resolution). Likewise, the Assembly requested the Secretary-General to report to it at its forty-fifth session on the use of mercenaries (para. 10).

4. The Commission on Human Rights, in turn, had before it the Special Rapporteur's fifth report (E/CN.4/1990/11) and, on 19 February 1990, adopted resolution 1990/7, in which it took note with appreciation of the report of the Special Rapporteur, decided to extend his mandate for two years in order to enable him to submit further conclusions and recommendations (para. 8) and requested him to submit to the Commission at its forty-seventh session a report on the question of the use of mercenaries as a means of impeding the exercise of the right of peoples to self-determination, together with his conclusions and recommendations, and to submit a preliminary report to the General Assembly at its forty-fifth session under the agenda item entitled "Importance of the universal realization of the right of peoples to self-determination and of the speedy granting of independence to colonial countries and peoples for the effective guarantee and observance of human rights" (para. 19). The Commission also requested the Special Rapporteur "to follow closely the process of ratification and the mode of application of the International Convention against the Recruitment, Use, Financing and Training of Mercenaries ..." (para. 13).

5. On 25 May 1990, the Economic and Social Council adopted decision 1990/222, in which it approved the Commission's decision to extend the mandate of the Special Rapporteur for two years.

6. Pursuant to the aforementioned resolutions and after sending communications to several States in connection with complaints concerning mercenary activities, and after visiting the Republic of Maldives at the invitation of that country to obtain substantiated information on the mercenary phenomenon and ascertain the position of

that Government on mercenary practices, the Special Rapporteur has the honour to submit to the General Assembly his sixth report on the question of the use of mercenaries as a means of violating human rights and of impeding the exercise of the right of peoples to self-determination. This report deals chiefly with the visit to Maldives and is of a preliminary nature, as prescribed in paragraph 19 of resolution 1990/7 of the Commission on Human Rights.

II. ACTIVITIES OF THE SPECIAL RAPPORTEUR

7. The Special Rapporteur visited Geneva from 4 to 7 February 1990 to submit his fifth report to the Commission on Human Rights at its forty-sixth session and to hold consultations. He also met with representatives of Botswana, Colombia, Nicaragua, Nigeria, Romania, Spain and Sweden and received representatives of non-governmental organizations. He used this time to draw up a general outline of the report he was to prepare for the General Assembly at its forty-fifth session, which is contained in this document.

8. On 13 March 1990, the Special Rapporteur wrote to the Minister for Foreign Affairs of the Republic of the Maldives, accepting his invitation to visit the country under the terms of his mandate and suggesting as dates the second two weeks of June 1990. In a subsequent exchange of letters, it was determined that the Special Rapporteur would visit Maldives between 18 and 23 June 1990, during which time he could freely interview some 70 persons who had been convicted of mercenary activities against that country. An account of that visit is contained in chapter IV of this report.

9. The Special Rapporteur returned to Geneva from 31 August to 6 September 1990 to hold consultations and interviews and to finalize this report.

A. Correspondence relating to the Comoros

10. In connection with the mercenary attack on the Comoros on 26 November 1989, the Special Rapporteur wrote to the Permanent Representatives of the Comoros, France and South Africa on 19 December 1989, requesting information under the terms of his mandate (see document E/CN.4/1990/11, paras. 26-28).

11. The Permanent Representative of France replied on 26 January 1990, stating, inter alia, that

> "The pressure exerted by the French Government has yielded results. The head of the presidential guard and his officers left the Comoros on 15 December 1989.
>
> "...
>
> "To prevent the departure of Bob Denard and his armed group from creating a situation detrimental to the maintenance of stability in the Comoros, the legal authorities of that country called upon the French Government, which, by

virtue of agreements concluded between the two countries, agreed to provide them with the requisite military assistance. The duration of this assistance will be determined by mutual agreement.

"As to Bob Denard's legal status in the French courts, it should be recalled that a warrant has been issued for his arrest on charges of conspiracy. He will be brought before a court as soon as he enters French territory ...".

12. The Special Rapporteur requested additional information in a letter dated 9 April 1990, to which the Permanent Representative of France replied in a letter dated 14 June 1990, stating:

"My Government considers that the presidential election of 11 March 1990, which was won by Acting President Saïd Mohammed Djahar in the second round, has brought an end to the period of unrest which began in the Comoros with the murder of Ahmed Abdallah on 27 November 1989. France welcomes this development, which demonstrates the appropriateness of its action and which should be confirmed by the adoption of a new constitution that will allow the establishment of a multiparty system, and, eventually, the holding of legislative elections. As regards Mr. Bob Denard, a warrant for his arrest was issued in France in 1988. Furthermore, a criminal complaint relating to the murder of President Abdallah was filed with the French courts and is going through the normal channels".

13. The Special Rapporteur also received a reply from the Permanent Representative of South Africa who, in a letter dated 21 February 1990, stated that

"... The South African Minister of Foreign Affairs, Mr. R. F. Botha, issued a media statement on 4 December 1989 in which it was made clear that the South African Government would suspend all co-operation with the Comoros ...

"Furthermore, it was at South Africa's insistence that the mercenaries should leave the Comoros and at the request of the Comorian people that the South African Government offered to evacuate the mercenaries from the islands. With the exception of two, all the mercenaries left South Africa within 48 hours of arrival in Johannesburg <u>en route</u> to France. The remaining two were granted temporary residence in South Africa pending the outcome of negotiations relating to their return to France. South Africa was in close contact with the French Government during this period".

14. The Special Rapporteur wrote again to the Permanent Representative of South Africa on 4 April and 20 July 1990, asking for further details about the situation of the above-mentioned mercenaries. At the time this report was completed, replies to the two letters had not yet been received.

15. It was for this reason also that the Special Rapporteur wrote on 20 July 1990 to the Permanent Representative of the Islamic Federal Republic of the Comoros to the United Nations in New York, requesting information about

"... the attack perpetrated by mercenaries against the Comoros, the damage done, the manner in which this action was brought to an end and the measures to be taken to protect the country's sovereignty ...".

B. Correspondence relating to southern Africa

16. On 20 July 1990 the Special Rapporteur wrote to the Permanent Representative of Angola to the United Nations in New York, requesting information on:

"The maintenance of an aggressive attitude by UNITA [União Nacional para a Independência Total de Angola] hindering the policy of clemency and national reconciliation pursued by the legitimate Government of Angola. The possibility that UNITA might still rely on mercenary forces for its military operations cannot be excluded ...".

17. The Special Rapporteur also sent a letter dated 20 July 1990 to the Chargé d'affaires of the Permanent Mission of Namibia to the United Nations in New York, requesting confirmation that:

"Namibia's independence and sovereignty are actually being respected and that no mercenary activity is being carried out on your territory on behalf of a third party to cause problems either for the Government of Namibia itself or for any other country ...".

18. The Special Rapporteur also wrote to the Permanent Representative of Mozambique to the United Nations in New York, pointing out that:

"Mozambique is one of those countries in southern Africa said to have been affected by this type of interference, and the Mozambique National Resistance (RENAMO) has been identified as a group which, with the assistance of third parties, has allegedly been supported by mercenaries hired to carry out military actions and civil sabotage to the detriment of Mozambique and its people ... Accordingly, I should like to request up-to-date information from your Government on the situation in Mozambique, with particular reference to the activities of RENAMO and the possible presence of mercenaries among its forces ...".

19. The Chargé d'affaires of the People's Republic of Mozambique replied on 8 August 1990 thanking the Special Rapporteur for his letter and appending four documents entitled: (a) Peace or Terror - A Crossroads for Southern Africa's Uprooted; (b) Mozambique - The Children of War; (c) Summary of Mozambican Refugee Accounts of Principally Conflict-Related Experience in Mozambique; and (d) Dumba Nengue "Run for Your Life". The Special Rapporteur will analyse these documents in his next report.

20. Similarly, the Special Rapporteur wrote to the Permanent Representative of South Africa to the United Nations at Geneva, stating that mercenary activities:

"In recent years have affected independent African countries and in other cases they have taken the form of attacks and crimes against leaders of African liberation movements, especially the ANC [African National Congress] ... (They) have complained to the international community, stating that the Government of South Africa was involved in the recruitment, training and protection of mercenaries.

(...)

"I venture to request your Government for detailed information about the gradual elimination by it of repressive policies against the black South African population under which ... mercenaries were used to maintain the policy of apartheid. I should also like to have information about the decisions adopted to institute judicial inquiries into the crimes committed against some ANC leaders, in which mercenaries were reported to have participated and the alleged knowledge of individuals in the South African Government about these and other mercenary activities ...".

21. In a letter dated 5 April 1990, the Special Rapporteur wrote to Mr. Nelson Mandela, Vice-President of ANC, explaining his mandate. He congratulated Mr. Mandela on his recent release and sought his co-operation, since there appeared to be corroboration of:

"The fact that there is a close relationship between apartheid and the presence in Africa of mercenaries, who are instrumental in achieving the objectives of this heinous policy. It is therefore not surprising that several ANC leaders have fallen victim to mercenary attacks, even in European cities, to which the intimidation and criminal activities of those backing apartheid have spread.".

22. The Special Rapporteur also sent a letter on 24 July 1990 to Mr. Zola S. T. Brweyiya, of the Legal Department of the African National Congress in Lusaka, repeating the content of the previous paragraph and requesting additional information:

"On the current course of events in South Africa and, in that context, on the status of the demands for justice in the cases of the ANC leaders who were assassinated by mercenaries presumably recruited by South African officials ...".

23. When concluding this report, the Special Rapporteur received a letter dated 30 August 1990 from the National Director of Lawyers for Human Rights, a non-governmental organization based in Pretoria, who appended abundant documentation concerning the alleged activities of mercenaries in South Africa. The Special Rapporteur proposes to devote particular attention to this matter in his next report, which he will submit to the Commission on Human Rights at its forty-seventh session.

C. Correspondence relating to Central America

24. On 11 April 1990 the Permanent Representative of Honduras to the United Nations at Geneva wrote to the Special Rapporteur, in reply to his letter of 21 March 1990, stating the position of the Honduran Government on the establishment of contra military bases within its territory, as well as the recruitment and training of mercenaries. He also referred to the Tela agreements of 5 to 7 August 1989 adopted by the Central American Presidents, and to the meeting of those Presidents held at Montelimar, Nicaragua, on 2 and 3 April 1990. He stressed the fact that the Tela meeting adopted a joint demobilization plan which was formally expressed in the agreement signed at Toncontín, Honduras on 23 March 1990. It was agreed to ask the United Nations Observer Group in Central America (ONUCA) and the International Support and Verification Commission (CIAV) to take the necessary steps to guarantee support for the process of demobilizing and disarming the members of the resistance, both inside Nicaragua and in other countries, by a completion date of 25 April 1990.

25. The Special Rapporteur repeated his request for an update on 16 July 1990 in a letter to the Permanent Representative of Honduras to the United Nations at Geneva, since:

> "10 June 1990 was to have seen full demilitarization and the consequent closing of camps occupied by Nicaraguans in Honduran territory and an end to all hostilities".

26. The Permanent Representative of Honduras replied in a letter dated 15 August 1990, describing the facilities which his Government had made available to ONUCA. He also said that demobilization had proceeded very slowly during the early months of 1990. Agreement had been reached at the beginning of April 1990 to demobilize the two main Nicaraguan resistance groups still present in Honduras, comprising some 2,607 people. The demobilization process was deemed to have concluded on 28 June 1990. The former members of the Nicaraguan resistance still in Honduras, together with their family members, were subsequently concentrated in temporary camps under the supervision of CIAV, with operational support from the Office of the United Nations High Commissioner for Refugees (UNHCR) to co-ordinate the repatriation of the individuals concerned, which is expected to be concluded by the end of 1990.

27. The Special Rapporteur also sent letters on 18 July 1990 to the Permanent Representatives of El Salvador and Nicaragua to the United Nations at Geneva, requesting information on the peace process in Central America and the positions of their respective countries on questions relating to his mandate. Similarly, in a letter of 16 July 1990, the Special Rapporteur wrote to the Permanent Representative of Costa Rica to the United Nations at Geneva, requesting information on legal proceedings in respect of the La Penca incident, in which an attempt had been made on the life of Edén Pastora by alleged foreign mercenaries. To date no reply has been received to these letters.

III. MERCENARY ACTIVITIES IN AFRICA

A. General aspects

28. The struggles of the peoples of Africa for the right to self-determination and the decolonization process under way since the 1950s have resulted in successive political independence and the establishment of new, republican States in Africa. Decolonization has enjoyed the constant support of the international community, in particular, the United Nations, which, through declarations and resolutions of the General Assembly and the Security Council, has on various occasions condemned colonialism, recognized national liberation movements and guaranteed the right of the peoples of Africa to establish independent republics. Nevertheless, in some cases decolonization was resisted by the European colonial countries, which delayed recognition of the independence of their former colonies. In the context of military action against African independence, there were instances of armed resistance, organized by groups of colonial landowners and businessmen, who, seeing their interests affected and unwilling to accept independence, resorted to forming armed bands and paramilitary groups to attack African national liberation movements.

29. The presence of mercenaries and the increase in their criminal activities are linked to resistance against the self-determination of African peoples; mercenaries are still being used today on the African continent to hinder the self-determination and sovereignty of independent African States. Such mercenary activities have been particularly common in southern Africa. There was intensive use of mercenaries during the time of the illegal occupation of Namibia. Countries such as Angola, Botswana and Mozambique have reported criminal mercenary activities which undermined their self-determination, peace in their territories and the full enjoyment of human rights by their peoples.

30. In all these instances the Government of South Africa and its policy of apartheid were identified as being responsible for the violence and military tension prevailing in southern Africa to the detriment of the peoples of the region. The accusations against the Government of South Africa included reports of the use of mercenaries, some recruited from the black African population and others in Europe, the Americas and Oceania. All these events have led to the deserved condemnation of the South African government and its policy of apartheid by the international community and the adoption of economic sanctions by the United Nations, with the aim of forcing South Africa to repeal the system of apartheid; acknowledge self-determination for and full exercise of political rights by the black population of South Africa; cease its military aggression in the countries of southern Africa; and accordingly end the use of mercenaries, by means of which it had continually undermined the rights of the black population, independent States in the region, and members of national liberation movements.

31. In the context described, the work of the Special Rapporteur has essentially involved studying instances of the use of mercenaries to impede the exercise of the right of peoples to self-determination, without, however, overlooking other situations relating to the sovereignty of countries in which the use of mercenaries for criminal ends and to destabilize constitutionally-established Governments has been noted. For the reasons stated, the Special Rapporteur has placed particular emphasis on the situation in southern Africa, examining, above all, the reports

received and instances in which the international community had objective information concerning mercenary activities against the peoples and countries of the region.

32. Previous reports of the Special Rapporteur follow political and social developments in southern Africa. As the international community is aware, since the second half of 1988 détente and peace have gradually come to southern Africa, with an easing of situations involving violence and military conflict, and greater emphasis on negotiation and political agreements as the most rational and effective means of resolving differences peacefully and affirming the right of peoples to self-determination. Peace-making and United Nations resolutions on the rights of African peoples have finally begun to gain ground. United Nations mediation, monitoring and supervisory machinery and procedures have played a fundamental role in this process.

33. Implementation of Security Council resolution 435 (1978) on effective independence for Namibia may be considered a fait accompli. South Africa has withdrawn from Namibian territory and respected the timetable for Namibian independence, SWAPO (South West Africa People's Organization) is in full exercise of its rights within Namibia, and the first unfettered elections have taken place to form a sovereign Government whose legitimacy is founded on the freely-expressed will of the people.

34. The same process of détente is apparent in Angola regarding its relations with South Africa, with which it has signed peace agreements ending the military confrontations between the forces of the two countries along the border between Angola and Namibia. A similar phenomenon may be observed in Mozambique. Nevertheless, centres of active resistance by RENAMO and UNITA guerrillas remain in Mozambique and Angola respectively, given which it cannot be stated that peace has been achieved within either country, although the external hostility on the part of South Africa of which they were victims has ended. Lastly, in South Africa, the installation of the Government of President F. W. De Klerk has marked the beginning of a significant movement towards détente and political negotiation, which, should it continue and become more pervasive, would end apartheid, and start the process of bringing the black population to the full enjoyment of their national, political and social rights.

35. It follows from the above that the final stage of the historical process of full decolonization and self-determination in Africa may come to a successful conclusion in the next few years. The peoples and countries of southern Africa are consolidating their national independence, and South Africa itself has entered a stage which, despite resistance and violent leanings on the part of the extreme right in support of apartheid, may mean the effective democratization of the country. As is obvious, the ending of the military conflicts and the signing of peace agreements in southern Africa are leading to a reduction in the presence of mercenaries in the region. Mercenaries played a fundamental role in the service of South African military aggression and expansion. As military conflict ceases or becomes less intense, there has been less need for mercenaries, who, in any event, seem for the time being to have withdrawn into South African territory, where they are reputedly working in co-operation with extreme right-wing groups to foment violence in the country in support of the apartheid régime.

B. Angola

36. The Special Rapporteur visited this country in August 1988 in connection with complaints which had been received concerning the active presence of mercenary forces along the frontier with Namibia and inside Angola. The second report presented to the General Assembly referred extensively to the situation in Angola. The subsequent reports to the Commission on Human Rights (E/CN.4/1989/14 and E/CN.4/1990/11) and the General Assembly (A/44/526) again referred to the Angolan question, providing an update on the positive developments within the framework of the tripartite agreements concluded by Angola, South Africa and Cuba. These agreements established peace between the first two countries and made it possible to begin the withdrawal of the Cuban troops based in Angola.

37. The Special Rapporteur has received no new reports of mercenary activities encouraged by South Africa against Angola, and therefore it can be argued that the peace agreement signed by those countries and the cessation of military activity along the frontier with Namibia have made it possible for the mercenaries who had been operating in that area to withdraw. Nevertheless, peace within Angola has not yet been achieved, since UNITA guerrilla forces are continuing their resistance to the Government of Angola, thereby creating a climate of collective insecurity which affects the lives and property of the Angolan population. The cease-fire agreements, the Angolan Government's policy of clemency and national reconciliation and the talks between the Government and Jonas Savimbi, the leader of UNITA, have not succeeded in ending the internal military conflict. The Special Rapporteur referred to this situation in his fifth report to the Commission on Human Rights (E/CN.4/1990/11, paras. 116 and 117).

38. The ongoing internal conflict in Angola requires the Special Rapporteur to continue examining the situation. The reports of military activity by UNITA allege not only that third countries provided military assistance to UNITA, but also that the guerrilla movement used mercenaries to provide military training to its forces and even involved them directly in the conflict. During the first few months of 1990, the military conflict between the Government and the guerrilla movement was very intense, especially in Mavinga, in south-eastern Angola, the strategic value of which lies in its proximity to Jamba, the guerrilla rebels' centre of operations.

39. Although the direct negotiations agreed to at Gbadolite, Zaire, in June 1989 have been formally suspended, both parties have been exploring the possibility of their resumption by means of statements which signify their abandonment of rigid positions. President Dos Santos has referred publicly to the possible establishment of political pluralism and other democratic reforms which could be adopted at the Movimiento Popular para a Liberação de Angola (MPLA) Congress in December 1990. For his part, Jonas Savimbi, the leader of UNITA, has also made statements in favour of the cessation of military operations and the recognition by his movement of the Angolan State on the basis of the Alvor agreements of January 1975. In any case, direct talks have in fact taken place, without recourse to mediation by Zaire. Nevertheless, the military conflict is continuing.

40. Accordingly, the Special Rapporteur maintains his views concerning the existence of mercenaries in Angolan territory in connection with the military needs of UNITA. His central premise continues to be the need for complete and total peace in Angola, not only so that its people can obtain their full right to security, life and development, but also so that all mercenary activity will disappear from Angola together with all foreign intervention.

C. South Africa

41. In all of his previous reports, the Special Rapporteur has referred to complaints of mercenary activities in which the Government of South Africa appears to be directly or indirectly involved. In the Special Rapporteur's judgement there is a cause-and-effect relationship between the policy of apartheid, which in itself constitutes a system of racial separation granting rights to some (whites) while denying them to others (blacks), and the violence which recurs constantly within South African territory, in the neighbouring countries and in other places where an organized anti-apartheid resistance exists.

42. In order to impose a political and social system based on racial segregation, the white minority which has invariably ruled South Africa has resorted to violence and crushed the freedoms of the black population. Many United Nations documents bear witness to the crimes committed by the governmental repressive forces and paramilitary groups organized by right-wing extremists. The analysis of the question of apartheid and the sanctions against the Government of South Africa which have been adopted by the United Nations does not fall within the mandate of the Special Rapporteur. Nevertheless, he has an obligation to refer to the methods and consequences of apartheid, to the extent that the South African Government resorted or consented to the use of mercenaries in order to affect the self-determination and human rights of the black population opposed to apartheid, within and outside South Africa.

43. In this respect, few doubts exist as to the use of mercenaries by the South African Government. The cases mentioned include those of "Battalion 31" and "Battalion 32", which were stationed on the Namibian frontier with Angola and were used both to crush the Namibian resistance and to intervene in the military conflict with Angola. The accumulated evidence points to a mercenary component in those battalions. As for ANC, several of its representatives were murdered in African and European countries by mercenaries hired for such criminal assignments.

44. The attribution of responsibility for these actions to organizations under the authority of or linked to the South African police is based not only on ANC reports; the South African press itself has begun to publish revelations which confirm the active participation of mercenaries in criminal acts. In this way, the existence of "death squads" assigned to carry out terrorist acts against ANC representatives abroad has been made known; such was the case of Dulcie September, who was murdered in Paris in 1988 by mercenaries, according to the revelations of a Swedish national named Human, who confessed to ANC representatives in Zimbabwe that he had participated in the murder. Moreover, an ongoing judicial investigation in Johannesburg has revealed the existence of a secret unit (the Civil Co-operation

Bureau (BBR)) which is responsible for murders, arson, bomb attacks, assaults and intimidation directed against ANC members and others. The number of anti-apartheid activists who have been assassinated by unknown elements in the past decade is estimated at 50, but recent investigations have demonstrated the participation of mercenaries and the involvement of a secret unit of the South African army in these criminal and reprehensible acts.

45. In other cases, mercenaries linked to organizations or recruited by various countries to fight in conflicts over the past few decades found a secure refuge in South African territory. Hence there is sufficient evidence to indicate that the South African Government not only used mercenaries in order to impose its authority and repress the anti-apartheid population of its country and other African countries, but also gave protection to mercenaries involved in acts which are prosecutable in the courts of other countries in Africa and Europe.

46. It is important to point out that such attitudes have begun to change significantly since the election of Frederik Willem de Klerk as President of South Africa in September 1989, and the admission by the ruling National Party that the policy of apartheid has failed and that it is necessary to move towards a democracy that does not exclude any ethnic group. This new policy has been implemented since February 1990, and other developments include the release of Nelson Mandela, the recognition of ANC and other political organizations which had been banned, and the beginning of a discussion of what the country's future constitutional system should be. In that discussion, black organizations have demanded that decisions should be taken openly and not through governmental and parliamentary machinery exclusively controlled by whites.

47. With regard to the use of mercenaries, paragraph 36 of the report of the mission dispatched to South Africa by the Secretary-General of the United Nations (A/44/960 of 1 July 1990) contains important information:

> "The Government also appointed several independent commissions of inquiry to investigate allegations of misconduct by the security forces. The Harms Commission is investigating accusations that the South African Defence Force operates hit squads against apartheid opponents within and outside South Africa. In this connection, the activities of the Civil Co-operation Bureau, a military unit allegedly involved in assassinations, are the subject of this inquiry."

The Government's decision is of great significance, because it demonstrates a resolve to put an end to criminal methods, including the use of mercenaries, which directly or indirectly involved it in the commission of criminal acts.

48. The process which can lead to the abolition of apartheid in South Africa has begun, but it cannot be said that it reflects a national consensus. There is resistance and violence. The state of emergency has been lifted throughout the country, except in Natal province, where there are sharp racial clashes. ANC has reported the presence in Natal of "Battalion 32", which served in Angola, and has alleged that it includes mercenary elements. The Ministry of Public Order has indirectly admitted that foreigners were active in that military unit by

acknowledging that "Battalion 32" was indeed stationed in Natal, but that now they were all South African citizens. In view of the virulent reaction by right-wing groups and the enlistment of paramilitary organizations, the possibility cannot be discounted that hired foreign mercenaries may be taking part in the violent actions which are still occurring in South African territory; in any case, however, if this hypothesis is true, President De Klerk can not be held responsible for the situation, as there is tangible proof of his efforts to promote the democratization of his country.

49. Be that as it may, the events which are currently unfolding in South Africa, and the international community's decision to maintain the sanctions against South Africa until the apartheid system is abolished, confirm the view which the Special Rapporteur has repeatedly expressed, namely, that apartheid is what is impeding the self-determination and human rights of the peoples of southern Africa. Mercenary activities, linked as they are to the use of repressive methods in order to impose racist policies which are contrary to self-determination, will disappear only when all the countries of Africa are fully sovereign and their peoples are guaranteed the enjoyment of all democratic freedoms and rights.

D. The Comoros

50. In the report which the Special Rapporteur presented to the Commission on Human Rights in February 1990 (E/CN.4/1990/11, pp. 29-30), reference was made to the coup d'état in the Comoros in which President Ahmed Abdallah Abderemane was overthrown and assassinated. The operation was carried out by Bob Denard and a group of 30 French and Belgian mercenaries, and was strongly condemned by the international community.

51. This condemnation and the immediate isolation of the Comoros led to the failure of the coup d'état. In response to an appeal from the legitimate Government of the Comoros, France sent an army contingent which helped to restore sovereignty in the islands. Denard and his mercenaries left the country on 15 December 1989 on board a South African transport plane bound for Johannesburg. Bob Denard is a mercenary of French origin who took part in several mercenary operations against African peoples (the former Belgian Congo, Katanga, Benin, etc.), and has a case pending before the Chambre d'accusation of the Paris Court of Criminal Appeal.

52. In response to the Special Rapporteur, the South African Government stated that it had not granted asylum in South Africa to Denard, but that the latter was in the country as a temporary guest while the question of his legal status in France was being resolved, and that he could be extradited. According to the information available to the Special Rapporteur, Bob Denard is still in South Africa, and his temporary-guest status is periodically renewed.

53. The Special Rapporteur places on record the fact that he wrote to the Government of the Comoros in order to obtain direct information on the events and to contribute, within the scope of his mandate, to ensuring that the people of the Comoros are guaranteed their rights to self-determination and sovereignty (see

chap. II above). To date there has been no reply to this communication. However, international press reports indicate that the country remains unstable. The Special Rapporteur will pursue his efforts to examine the question of the Comoros and will include information on that country in his next report to the Commission on Human Rights.

IV. MISSION TO MALDIVES

A. Conduct of the visit to Maldives

54. In paragraph 18 of its resolution 1990/7 of 19 February 1990, the Commission on Human Rights recommended that the Special Rapporteur "... accept the invitation extended to him by the Government of Maldives to visit that country and carry out a thorough investigation of the mercenary activities to which it has been subject".

55. The Special Rapporteur fulfilled the task entrusted to him by the Commission by visiting Maldives from 18 to 23 June 1990, in response to the invitation extended to him by the Government of that country. During his stay, he had meetings with the President of the Republic, the Minister for Foreign Affairs, the Attorney-General, the Director of the National Security Council, the Permanent Secretary of the Ministry of Foreign Affairs and other senior officials. The Special Rapporteur also received private individuals who had asked to talk to him and heard in private, on the premises of the Ministry of Security and National Defence, the testimony of three people convicted by the Supreme Court of having taken part in the armed aggression launched against the country on 3 November 1988.

56. On 19 June 1990, the Special Rapporteur was received by Mr. Ibrahim Hussain Zaki, Permanent Secretary of the Ministry of Foreign Affairs, who described the investigations conducted into the 3 November 1988 armed aggression against his country. He said that the armed group which had disembarked that day at Male had consisted mainly of Tamils belonging to a Sri Lankan guerrilla group called PLOTE (People's Liberation Organisation of Tamil Ealam), whose leader Uma Magswaran had wanted to set up a puppet régime in Maldives to facilitate his illegal arms and drug trafficking with Sri Lanka. The guerrilla group had been contacted by a man called Luthufy, a Maldivian businessman living in Sri Lanka who wanted to become the Maldivian strongman. Other Maldivian citizens, friends of Luthufy, had taken part in the aggression.

57. The investigation had revealed that the group of attackers had landed at Male on the date in question in two boats which had left Sri Lanka a few days earlier. On landing, they had tried to seize control of government buildings in the capital city but had encountered fierce armed opposition. There had been heavy fighting in which 17 people had been killed and an unknown number injured. The group had later decided to withdraw and had re-embarked in the boats in which they had arrived, taking with them 28 hostages including the Minister of Transport and Navigation.

58. In response, the Government of Maldives had sought emergency assistance from a number of friendly countries and had finally accepted the help of the Indian Navy, which had immediately dispatched a number of forces to the area and had managed to apprehend the fleeing attackers on the high seas and to release the hostages. Nine of the hostages had died and many others had been wounded by their captors or in

the fighting that had preceded the attackers' surrender to the Indian Navy. The survivors had been taken to Male and handed over to the Maldivian authorities, which had launched an investigation and put the prisoners on trial. Large quantities of weapons had also been seized on the boats used by the attackers.

59. The Permanent Secretary believed that some or all of the financing for the attack might have come from PLOTE, which at the time had had the necessary resources. Later, the organization had split into two factions which had accused each other of involvement in the attack on Maldives.

60. As a result of the aggression, the Government of Maldives had strengthened its security system by expanding its armed forces to 1,500 men and improving communications. The increase in security spending had adversely affected the country's economic development.

61. Lastly, the Special Rapporteur reiterated orally to the Permanent Secretary his request, already made in writing to the Government, that he be allowed to talk privately to as many Tamil prisoners as possible. The Permanent Secretary assured the Special Rapporteur that his Government would do all it could to make that possible, although there were major logistical difficulties since the prisoners were being held on different islands which were very far way from each other.

62. The Special Rapporteur was then received by Mr. Ahmed Zahir, the Attorney-General, who described the armed aggression as having been launched by a Tamil group from Sri Lanka (PLOTE) and led by a man called Vasanthy. The group of attackers had consisted of 68 Tamils and three Maldivians. He believed that the attack had failed because Vasanthy had died in the very first moments of the fighting. He said that Vasanthy had been well trained in military strategy in Lebanon and India. Magswaran, identified as PLOTE's leader had been found dead on a Colombo street some time after the coup attempt against Maldives.

63. Turning to the involvement of three Maldivian citizens in the attack, the Attorney-General also identified Luthufy as the key figure. He said that Luthufy had planned to seize power in Maldives and hand over one or more islands to PLOTE to use as a military training centre while facilitating the illegal entry of weapons, drugs and commandos into Sri Lanka.

64. All the Tamil and Maldivian attackers taken prisoner had been tried by the Supreme Court, which had found them guilty of entering Maldivian territory illegally on 3 November 1988 and forming an armed group which had launched a grave attack on the independence, sovereignty and territorial integrity of the Republic. Seventeen people had been killed in the attack and an unknown number injured, and considerable damage had been done to Maldivian public and private property. Such conduct had therefore been classified, in accordance with the Maldivian Penal Code, as offences against the State, treason and sedition, attempting to overthrow the national Government, serious disruption of public order, use of firearms resulting in death and injury, hostage-taking, illegal entry into and departure from the country, attacks on property, etc. Some of those brought to trial had been sentenced to the death penalty, although that had later been commuted. All of them had received custodial sentences ranging from 16 to 28 years. They were now

serving their sentences under an open prison régime since they had been confined separately to remote islands of the archipelago. As a result the prisoners, who were very young - some of them even adolescents - enjoyed freedom of movement on the islands to which they had been confined, mixed with the local population and were even working to provide for their needs.

65. The Attorney-General told the Special Rapporteur that the prisoners had not benefited from legal counsel or unofficial defence counsel during the trials. Islamic law, on which Maldivian positive law was based, only allowed the accused to defend himself, without the help of a lawyer.

66. The Attorney-General also described the prisoners as mercenaries, since they had been an armed group of foreign nationals, financed by PLOTE to overthrow the legitimate Government of Maldives.

67. Later, the Special Rapporteur received a journalist who had requested an interview with him without his name being revealed. He said he had received secret death threats and had been detained for nine days in the National Security building, where he had been interrogated about his political and professional ideas and activities. He said he would have to appear in court, although he was unaware of the charges against him. Apparently he had published views in an opposition periodical in which he had criticized some members of the Government, alleging corruption and nepotism in certain government circles and the torture of a number of detainees for political reasons. He stated that freedom of expression was seriously curtailed, that freedom of political association was non-existent and that it was compulsory in the country to be a Muslim, religion being used for political purposes. He himself felt threatened.

68. With regard to those detained because of the events of 3 November 1988, he said that they had suffered maltreatment, including torture, during interrogation prior to their trial. He said that at least one of the Tamils - photographs of him in chains had been published - had died as a result of the torture.

69. On 20 June 1990 the Special Rapporteur was received by Mr. Anbaru Abdul Saltar, Director of the National Security Council and Deputy Minister of National Security, who explained the various mercenary acts of aggression suffered by his country. At the beginning of the 1980s the President's brother-in-law tried to overthrow the President with the help of 10 British mercenaries hired for that purpose. The aggression of 3 November 1988 was a complete surprise to the country and its intelligence services. The coup was reportedly financed by Luthufy and the Tamil guerrilla organization PLOTE, and 80 of its members living in the Sri Lankan jungle were recruited. They were transported by sea from Sri Lanka to Male, where they landed at about 4.15 a.m., and, firing their weapons, tried to take over the National Security Council headquarters and the presidential residence. Although well-armed, they were repulsed by the Maldivian armed forces - numbering about 120 at that time - and, after armed clashes lasting about 12 hours, they decided at about 6.30 p.m. to retreat in the boats which had brought them. Some of them were obviously well trained for war, having undergone combat training both in Lebanon and in India. They varied in age from 18 to 28 years. Of the 80 Tamil participants, 67 were taken prisoner.

70. The Maldivian Government requested assistance from friendly Governments and finally accepted that provided by India. On the same day, at 7.30 p.m., the first contingent of Indian troops arrived at Male airport, by which time the attackers had already withdrawn. Indian warships then pursued and captured the attackers at sea. The prisoners were placed at the disposal of the Maldivian authorities. The President appointed a fact-finding team of four ministers to carry out an investigation. Major Ahmed Zahir took charge of the interrogation of the detainees, who spoke only Tamil, for which reason they had to procure interpreters, and the investigation lasted approximately five months. Apparently only one of the accused requested the assistance of a defence lawyer, a request to which the Supreme Court acceded. All are currently serving their sentences, which involves deprivation of liberty. They are permitted to meet with their families, receive medical assistance, read and listen to the radio; a few of them have been sent to other islands.

71. The Director of the National Security Council said that his defence forces had been significantly increased since the attempted coup d'état, a joint security force having been set up consisting of members of the police force and fire brigade.

72. The Special Rapporteur was subsequently received by Mr. Fathulla Jameel, Minister for Foreign Affairs, who described the attack suffered by his country on 3 November 1988 as a "terrorist" and "mercenary" attack aimed at overthrowing the lawful Government. He acknowledged that the Tamil members of the attacking force had not been the usual soldiers of fortune - their personal motives may have been different - but evidently the PLOTE leaders had arranged with Luthufy to be rewarded in kind for participating in the attempted coup d'état, if successful. Specifically, PLOTE would have received half of the Maldivian arsenal, two Maldivian islands where they could set up Tamil training camps, and two tourist resorts which would have been operated for the purposes of financing their struggle in Sri Lanka, with the Luthufy Government turning a blind eye to the smuggling of arms between Maldives and Sri Lanka.

73. With regard to the International Convention against the Recruitment, Use, Financing and Training of Mercenaries, adopted by the General Assembly on 4 December 1989, the Minister stated that his Government was studying the text with a view to the Maldives signing it. As to domestic legislation, he had doubts about the adoption of specific anti-terrorist legislation which would include mercenarism as a terrorist offence, or about the revision of certain articles of the Penal Code.

74. The Minister said that, in his view, despite the recently adopted security measures, his country continued to be vulnerable to extremist attacks by international terrorists and sophisticated mercenaries, whether or not combined with the illicit traffic in arms and drugs, which were so abundant in that region. He did not, however, rule out the possibility that certain Tamil groups might try once again to take over Maldives in order to use its territory as a sanctuary and an arsenal for attacking Sri Lanka, some 400 miles away.

75. On 21 June 1990 the Special Rapporteur was given an audience with the President of the Republic, Mr. Maumoon Abdul Gayoom, who expressed his thanks for the support given by the United Nations to his country, which belonged to the

category of small island States. He indicated that the aggression of 3 November 1988 had been a surprise and a bitter experience, since his country was very peaceful, its society homogeneous, there were no ethnic or linguistic differences and no drug trafficking had been detected.

76. In the face of the aggression suffered at the hands of the Tamils belonging to PLOTE, his Government requested assistance from other friendly Governments, and India immediately responded by sending to Male the first contingent of troops, which arrived at 7.30 p.m. on the same day, by which time the attackers had already withdrawn from the city.

77. Although national security had been considerably reinforced, the President of the Republic pointed out that the vulnerability of Maldives as a member of the category of small States left his country under constant threat. In his view, the United Nations should assume the obligation to give due protection to small States from external threats and acts of interference in their internal affairs. It should promote the adoption of measures at the international, regional and bilateral level so that, when those States so requested, they would receive the necessary assistance in strengthening their security. Thus, in pursuance of Article 99 of the Charter, the Secretary-General should pay special attention to monitoring the security situation of small States, as indicated in paragraph 4 of General Assembly resolution 44/51, of 8 December 1989.

78. The Special Rapporteur then went to the offices of the Ministry of Security and National Defence, where he was able to interview, in private and individually, the three Tamils who were serving sentences for having participated in the events of 3 November 1988. Even though the Special Rapporteur had a number of times requested, both in writing and orally, an opportunity to interview the greatest possible number of prisoners convicted on those grounds, the Government made only the three individuals referred to available for interviewing by him.

79. The first of the three individuals concerned identified himself as Balamurali, alias "Vasu", a native of Sri Lanka and 22 years of age. According to his account, he was a student in his country when he was contacted by Vasanthy, who told him about PLOTE and its revolutionary goal of attaining independence for the Tamil people. He joined PLOTE, and in the course of two months he passed through a number of PLOTE camps in northern Sri Lanka, where he received training in the use of weapons and was given food and clothing. He claims that he was never given money by PLOTE. Then, at a particular point in time, Vasanthy ordered him, together with 80 companions at the PLOTE camp, to board two vessels at Mullikalam beach, Sri Lanka, and sail for an unknown destination. After two days at sea, Vasanthy informed them that they were going to land in Maldives using force, which was what indeed happened after four days at sea. However, he himself was unable to disembark as he was unwell and running a high temperature, and he therefore remained on the vessel that had transported him and his companions to Maldives. Subsequently their vessel sailed from Male, and they were then detained on the high seas by Indian warships and taken back to Male, where they were interrogated by Indian civilians - or perhaps soldiers - in a room in which there were also Indian and Maldivian soldiers. He was not subjected to torture in the course of the interrogation, though he alleges that he was handcuffed and that his legs were tied

together with a chain one foot long. He signed a written statement and, after a period of seven months, he was brought before the Supreme Court on the charge of having killed 17 people and having committed other offences against property. He challenged the accusations in question, which were not in keeping with the text of his statement, and requested legal assistance, which he was denied. He was ultimately sentenced to 15 1/2 years' imprisonment, and he began to serve the sentence in the island-prison of Gamaadhoo, subsequently being transferred for six months to an island where he was free to live side by side with the island's inhabitants. Two months ago, he was taken back to Gamaadhoo prison, where he is now located together with 40 Tamil companions. He requested a presidential pardon or, as an alternative, that he should be returned to the island where he had been permitted to live freely, but his request was in vain. He corresponds intermittently with his family in Sri Lanka.

80. The Special Rapporteur then heard Padmanadam, alias "Patrick", who said that he was a Sri Lankan student of 21 years of age who had joined PLOTE in 1986 and received military training both in India and in his own country. He had never received money from PLOTE but had been given food and clothing. At a certain point in time he had embarked, together with 80 companions, on two fishing vessels, without any of the individuals concerned being told their destination or what the purpose of the exercise was. When they reached Male he was ordered to disembark with a group of 12 men, carrying a mortar in a sack, and they were assigned the task of keeping the local population away from the site where the armed confrontations were occurring. After a while, their chief ordered them to withdraw and they went back on board the vessels; he was ultimately detained, together with his companions, on the high seas by Indian warships. Once he had been taken back to Male, he was blindfolded and handcuffed, and then interrogated while being subjected to oral threats, but not physical violence. He was forced to sign a written statement in Tamil and English, and the Supreme Court sentenced him to 15 years' imprisonment. He requested the services of a lawyer, which he was denied. Until 28 September 1989 he was serving his sentence in the island-prison of Gamaadhoo, and since 1 October 1989 he has been serving his sentence on a small island on which he is obliged to work under the supervision of the governor of the island. He maintains that he has been unable to correspond with his family, and says that he wishes to study.

81. Subsequently, the Special Rapporteur heard Nandakumar, alias "Salim", who said that he was a Tamil student of 24 years of age and a native of Sri Lanka. He said that he had joined PLOTE in 1987 and that he had received military training in India and Sri Lanka and had lived at PLOTE camps, PLOTE having met all the needs of the camp residents and provided them with a small amount of pocket-money. He was ordered to sail for an unknown destination, together with other members of his organization. Their chief, Vasanthy, told them that they were going to take part in a training exercise, and they were not informed until later that they were going to land in Maldives. He was assigned a mortar, which he fired twice at a building from which armed resistance was being offered. He was later ordered to withdraw to the vessels, since it was feared that Indian troops might arrive. The vessel on which he fled was subsequently rammed by Indian vessels and sank, resulting in the death of two of his companions. He and his remaining companions surrendered and were taken to Male, where their hands were tied with cords, they were blindfolded

and their feet were shackled. He was interrogated by Indians speaking Tamil, under the threat of being handed over to the population so that he could be stoned if he did not co-operate in the investigation. He maintained that the Indian interrogators had suspended him by handcuffs and then beaten him in order to intimidate him. After the interrogation, they had forced him to sign a self-incriminating written statement. He was sentenced to 17 years' imprisonment by the Supreme Court, which denied him legal assistance when he was brought before it. He had begun to serve his sentence in the island-prison of Gamaadhoo and was subsequently deported to a small island.

82. Once he had heard the prisoners whom the Government had placed at his disposal, the Special Rapporteur once again emphasized to the Government that he should have access to as many prisoners as possible so that he might interview them. He was assured that all possible steps were being taken to meet his request, but was also informed that from a logistical point of view it was very difficult to do so, since the prisoners were dispersed on islands at a great distance from the capital. Security arguments were also put forward, since the Prime Minister of India was coming to Sri Lanka the following day on an official visit. However, some of the prisoners interviewed stated that there were approximately 40 prisoners in the island-prison of Gamaadhoo, near Male, and the Special Rapporteur therefore indicated that he was willing to travel to the island in question in order to interview them. Unfortunately, after he had waited 48 hours, the Special Rapporteur was informed that it would not be possible to meet his requests for an opportunity to interview more prisoners.

83. On 23 June 1990 the Special Rapporteur interviewed another journalist, who, requesting that his name should not be used, expressed concern at the frequent threats directed at journalists who voiced political criticism. According to him, freedom of the press is seriously restricted in the country and there is frequent manipulation by the Government, apparently extending to news reports on the Special Rapporteur's visit itself. He asserted that the group which had carried out the attack on 3 November 1988 was composed of very young revolutionary students belonging to PLOTE, the leaders of which had been paid by Luthufy and other Maldivians, who had ordered the students to attack Maldives, giving them no choice in the matter. Once captured, they had been handcuffed, tied up with ropes, blindfolded and subjected to abuse from a mob. He maintained that many of them had been tortured in the course of the interrogation, and that there had been a rumour that one individual had even died as a result of torture. The judicial process to which they had been subjected had been flawed, since there had been no public access to the hearing and the accused had not been provided with legal assistance. Lastly, he asserted that some of the individuals convicted were serving their sentences in the island-prison of Gamaadhoo, while others were apparently in another clandestine prison on the island of Dhoonidhoo.

84. After thanking the Maldivian Government for his invitation and for the co-operation extended to him so that he could carry out his mission, the Special Rapporteur left the country late on 23 June 1990. The Special Rapporteur also wishes to acknowledge the valuable assistance consistently provided by the Office of the United Nations Development Programme (UNDP) at Male, which provided him with all the physical infrastructure required in order to ensure that his mission would be successful.

B. Observations on the situation in Maldives

1. The nature of the 1988 attack

85. The main purpose of the Special Rapporteur's visit to Maldives was twofold: on the one hand, to evaluate on the spot the circumstances which had caused this country to be the victim of an attack of a mercenary nature on 3 November 1988; and on the other, to assess the security situation and the conditions guaranteeing the country's self-determination, and to determine whether this country is vulnerable to situations jeopardizing its self-determination and territorial sovereignty.

86. With respect to the first question, it can be seen from the report on the visit that Maldives suffered an attack from outside which took the country by surprise and which would have had major implications for its sovereignty. If the unexpected armed attack had achieved its objectives, the Government of Maldives would have been overthrown and replaced by a de facto one acting in accordance with the economic and political ambitions of a Maldivian national named Luthufy. In order to attain his goals, Luthufy had contacted a Tamil guerrilla group from Sri Lanka, known as PLOTE. There is sufficient evidence to assert that Luthufy financed the armed expedition against his own country, providing resources for the leaders of PLOTE, in particular Uma Magswaran, to acquire weapons, recruit men and charter ships, thus organizing an expedition whose military objectives were easy to achieve, given that Maldives has a very small military. On the other hand, there is also evidence to indicate that if the attack had succeeded militarily, this would have resulted not only in the installation of a puppet régime in Maldives, but also in significant territorial losses. Part of the agreement with PLOTE had involved ceding two Maldivian islands, on which PLOTE would have established Tamil military training camps, two tourist resorts to finance the Tamil struggle against the Government of Sri Lanka, and facilities to carry out, from Maldives, illicit trafficking in weapons and drugs, to the detriment of Sri Lanka.

87. From the point of view of international law, the operation in Maldives was grave in itself, and had far-reaching implications. In the first place, armed aggression was used in an attempt against the legally constituted Government. In the second place, an internal conflict in a third country (Sri Lanka) was exploited in order to involve a guerrilla group from that country in the attack on Maldives. Thirdly, the sovereignty of Maldives would have been severely compromised by territorial concessions to the Tamil guerrilla group. Fourthly, the operation involved an agreement to tolerate hostile and illegal actions against Sri Lanka from the Maldivian archipelago, which is approximately 400 nautical miles from the coast of Sri Lanka. Fifthly and lastly, dangerous tension was created in this area of the Indian Ocean, giving an international dimension to the internal conflict between Tamils and Sinhalese in Sri Lanka, with illicit trafficking in weapons and drugs and the potential militarization of an area where Maldives, Sri Lanka and India are all close together.

88. The failure of the expedition was due to the unexpected military resistance encountered, to the death of one of the leaders, named Vasanthy, to ignorance of the military objective on the part of the attackers, as the Special Rapporteur was able to verify, and to the retreat and flight of the attackers when they feared

that the Maldivian Government would call for outside assistance in the emergency, as in fact it did. However, the failure of the expedition against Maldives does not obviate the need to point out the grave repercussions which would have ensued if it had succeeded. It also calls for reflection on the potential dangers in an area where ongoing, unresolved internal tension threatens to spread or might be used by political or economic interests of third parties, public or private, located in the Indian Ocean region.

89. Maldives is a sovereign State, a full Member of the United Nations, and everyone must respect its self-determination and its sovereignty. Under the principles of international law and of the United Nations Charter, the attack on Maldives, in which 68 Tamils and 3 Maldivian nationals took part, is to be condemned. It would have been unacceptable for a puppet government to be installed, and a Tamil bridgehead established in Maldives from which attacks could have been carried out on Sri Lanka, in line with the military and national objectives of the Tamils in that country. The Special Rapporteur expressed this point of view during his visit to Male, at the same time avoiding giving an opinion as to the national rights of the Tamils or on the legitimacy of their political and military struggle in Sri Lanka. The point is that an ethnic, national, religious or other group which comes together and forms a political or military resistance movement in its country, may have a legitimate basis for such action, which would cause it to be recognized outside the country as a national liberation organization.

90. There is no need to go into the question of the legitimacy of such internal action. But such a group may not assign, let alone lend, its military capability in order to get entangled in military or other adventures prejudicial to the sovereign rights of a country which is not its own and is not involved in the internal conflicts to which the group or organization is a party. A situation like this does not enjoy the protection of international law, and for that reason the action against Maldives by the Tamil group PLOTE was to be condemned. Responsibility naturally falls on the three Maldivian nationals who planned the operation, but also on the Tamil group PLOTE, which may not adduce in its defence the situation of the Tamils in Sri Lanka and their national resistance movement there.

2. The mercenary component in the attack on Maldives

91. When the attack on Maldives took place, the Government charged that it was the work of Tamil mercenaries financed by Maldivian nationals. The capture of the vessels in which the unsuccessful invaders had fled by the Indian Navy, which had been called in by the Maldivian Government itself, confirmed that they were indeed Tamils and that they might be mercenaries. Given the danger to the self-determination of peoples which is posed by the presence of mercenaries in any type of conflict, national or international, verifying this point was one of the principal goals of the Special Rapporteur's visit to Maldives.

92. Furthermore, the fact that the Tamil attackers who were captured were brought to justice and are serving prison sentences made it easier, in theory, for the Special Rapporteur to ascertain the mercenary character of the attackers on the

spot. Two circumstances however, impeded the Special Rapporteur from achieving this goal. The first was that any information on the judicial proceedings could be obtained only from the version given by the Maldivian authorities, in particular the Attorney-General. It was ascertained from this source that the attackers were tried, in accordance with the Maldivian Penal Code, for offences against the State, treason and sedition, attempting to overthrow the national Government, serious disruption of public order, use of firearms resulting in death and injury, hostage-taking, illegal entry into and departure from the country, attacks on property, etc. Some of them were sentenced to death, but the death penalties were commuted, and all of them received custodial sentences of between 16 and 28 years. But from the same source it was learned that they had been tried through interpreters, since the accused spoke only their own Tamil language, and that they had had no defence counsel. The Special Rapporteur had access only to the text of some of the indictments and sentences by the Supreme Court, not having received to date the complete written information requested from the Government.

93. The second difficulty was that although about 40 Tamils were in custody, the Special Rapporteur was able to interview only three of them. The Maldivian authorities maintained that since they were confined to various remote islands of the archipelago, it would be difficult and costly to bring them together in a single place or to have the Special Rapporteur travel to each of the islands. In addition, they adduced reasons of security, owing to the visit of the Prime Minister of India to Male during the same period. The Special Rapporteur feels that his inquiries would have been more thorough if he had interviewed a larger number of prisoners, as he asked to do repeatedly.

94. In any event, on the basis of the interviews which he did carry out, and the information supplied by the Maldivian authorities themselves, it may be assumed that the attackers who were captured and confined were similar in one respect: they were all Tamil youths belonging to the organization PLOTE and recruited to take part in a domestic struggle against the Government of Sri Lanka. When the invasion took place, they did not know where they were going, nor that they would take part in a hostile act against Maldives. They had not deliberated and taken a decision of their own to involve themselves in the invasion of Maldives, nor did they receive any pay for doing so. Consequently, in the circumstances described and in the light of the provisions of article 47 of Additional Protocol I to the Geneva Conventions of 1949, the Tamil youths who took part in the invasion of Maldives cannot be considered mercenaries. The same conclusion would be reached if the International Convention against the Recruitment, Use, Financing and Training of Mercenaries, adopted by the General Assembly on 4 December 1989, but not yet in force, had entered into force. Their conduct should be judged in terms of the infringement upon the sovereignty of a foreign State and the toll in lives and material damage, even if their responsibility may be considered limited, given the circumstances surrounding their participation in the criminal act which international law condemns.

95. Notwithstanding the considerations above, the invasion of Maldives did have a mercenary component, but it was confined to the Maldivian nationals who financed the expedition to satisfy their own ambitions for economic and political power, and most particularly the leaders of PLOTE who willingly engaged in mercenarism by

accepting money, weapons and promises of territorial compensation in exchange for forcing a group of their own Tamil guerrillas to become an army invading a foreign country. Here we find all the elements that typify mercenary activity, with no extenuating circumstance to diminish the responsibility of the Tamil leaders of PLOTE who wilfully practised mercenarism. The fact that the economic and territorial rewards promised would susbsequently serve the Tamil national cause does not alter the mercenary essence of the operation which they organized and directed against Maldives.

96. The Special Rapporteur considers that the responsibility of the Tamil leaders of PLOTE is aggravated by the fact that they used the Tamil cause and diverted it from its goals in organizing a mercenary operation. Without going into an analysis of the internal situation in Sri Lanka, the Special Rapporteur submits that the Tamil guerrilla groups, whether or not their cause is legitimate, and even more so if they claim to be a national liberation movement, may not interfere in the affairs of third countries. The situation is made more grave, and their action is stripped of any justification, if they use the armed section of their movement to contract for and provide mercenary services.

97. An equally important fact about Maldives is that the country was genuinely affected by the 1988 attack and its aftermath: firstly, because it was drawn into another country's conflict; secondly, because its extreme vulnerability became evident; and thirdly, because a poor country with scant resources was forced to increase its expenditure on military defence, thereby reducing the resources for public services and development programmes. In any event, the question under discussion should be of concern to the international community: a country such as Maldives, like all small States, is intrinsically vulnerable and is further endangered when strategically located or when there are conflicts going on nearby. Both conditions are met in the case of Maldives: its strategic position in the Indian Ocean is of major importance, and there is increasingly violent military action in the conflict in Sri Lanka between the Tamil minority and the Government. There is clearly a risk that this conflict might be internationalized, and if this were to happen, the sovereignty of Maldives would again be in danger.

V. EVOLUTION OF THE CONFLICT IN CENTRAL AMERICA

98. On the basis of reports by the Government of Nicaragua concerning mercenary activities in Nicaraguan territory and against Nicaragua, the Special Rapporteur included this topic within the purview of his mandate from the Commission on Human Rights. His third, fourth and fifth reports referred at length to this question and provided information obtained and verified during his visits to Nicaragua (December 1988) and to the United States (July 1989).

99. Those reports clearly showed that the Central American region was indeed suffering the consequences of an armed conflict which was most intense in Nicaragua and El Salvador, but was continuing to spread and engulf the whole region. The Special Rapporteur paid particular attention to the Nicaraguan conflict, characterized by armed resistance to the Sandinist Government on the part of opposition groups.

100. This conflict lasted for virtually the entire decade of the 1980s, claimed about 50,000 lives and caused substantial material damage to Nicaragua. The frontiers with Costa Rica and Honduras were also affected militarily, because military forces of the resistance were stationed in those strategic areas. The frontier with Honduras was affected more severely, because of persistent military clashes all along the border, and because of the installation of camps for members of the resistance, relatives and refugees within Honduran territory.

101. In the earlier reports, the Special Rapporteur also described in detail the role of foreign mercenaries hired by the resistance (contras) to take part in activities detrimental to the sovereignty of the Nicaraguan State and to its population. In addition, he referred to the international network enabling mercenaries to use the territory of various countries to obtain funds and weapons, and carry out acts of sabotage against Nicaraguan installations. The aforementioned reports also contain information on United States intervention on the side of the resistance forces, and describe how covert operations facilitated the participation of foreign mercenaries hired to assist the contras and to commit acts of sabotage against the sovereignty of Nicaragua.

102. But those reports also refer at length to the efforts by the Central American Presidents to find a negotiated political settlement to the conflict. The Esquipulas II agreement and subsequent agreements contained the details of a comprehensive demobilization and peace plan whose implementation was supposed to resolve all existing claims. These agreements, particularly Esquipulas II - the understanding being that all aspects had to be fully implemented - enjoyed the support of the international community and were explicitly accepted by the United States Government. The United Nations made a special contribution to their implementation through CIAV and ONUCA.

103. The Special Rapporteur can now inform the General Assembly that the peace agreements signed by the Central American Presidents have been implemented, and that the conflict in Central America has come to an end, particularly as far as Nicaragua is concerned. Indeed, the cease-fire has been effective and has been observed. The Sandinist Government kept its word to hold free elections in the presence of international observers. They were held in February 1990 and were won by the opposition candidate, Mrs. Violeta Barrios de Chamorro, to whom President Daniel Ortega handed over power two months later. The members of the resistance, for their part, have laid down their arms, and the Government of Honduras has reported that there are no more resistance camps along the border with Nicaragua. Demobilization has therefore been achieved, while the process of repatriating Nicaraguan families is well under way, under the supervision of CIAV and UNHCR. This is expected to be completed in December 1990.

104. In addition, amnesty laws have been passed, and Nicaragua has begun a process of national reconciliation. The main stumbling-blocks here are the natural mistrust between groups formerly locked in military combat, and the need to rebuild the economy of a country devastated by a long, bloody military conflict.

105. The Special Rapporteur has received no further reports on mercenary activities in Nicaragua. Nevertheless, he has written to the new Government to request an official account of the new situation in Nicaragua, thus closing the chapter on the reports which Nicaragua, as a sovereign State, made concerning mercenary activities affecting its territory and its inhabitants (see chap. II above).

106. In any event, the trials held in United States courts, and the trial now under way in Costa Rica concerning the criminal attack at La Penca clearly show that individual mercenaries were active in the conflict in Central America, serving or participating in covert operations supported by influential groups in the United States establishment. Although the conflict is over, the judicial evidence of mercenary involvement should encourage the international community to reiterate its rejection and condemnation, and its policy of preventive legislation against any type of mercenary activity.

VI. INTERNATIONAL CONVENTION AGAINST THE RECRUITMENT, USE, FINANCING AND TRAINING OF MERCENARIES

107. As at 20 August 1990, the Convention had been signed by five States (Congo, Italy, Maldives, Nigeria and Zaire), and had been ratified or acceded to by two (Seychelles and Suriname). Inasmuch as article 19 provides that the Convention shall enter into force only after the deposit of the twenty-second instrument of ratification or accession, it may only be used as a general point of reference for the work of the Special Rapporteur under the terms of his mandate.

108. In addition, the Convention has since its adoption been providing guidance to States in the development of their national legislation to combat mercenary conduct and activities.

VII. CONCLUSIONS

109. The climate of détente in southern Africa and Central America has continued this year, and political agreements designed to end conflicts affecting the self-determination and sovereignty of certain countries have been taking shape. Namibia in southern Africa and Nicaragua in Central America may be identified as the best examples of countries where conflict has ceased, self-determination has been affirmed and sovereignty has been respected. Mercenary activity in those countries has also ceased.

110. While there is conclusive evidence of a trend towards the winding down or cessation of armed conflict in southern Africa and Central America, one must not infer that the process has been completed throughout those regions. In southern Africa, Angola and Mozambique are still beset by internal conflict involving armed resistance to their respective Governments; the presence of mercenary elements among rebel forces cannot be ruled out. In this regard, the assumption that there are mercenary resources available for use in military conflicts is correct; their involvement ceases when the conflict comes to an end and peace is restored in the country concerned. Attention must therefore be paid to the existence of groups

organized for mercenary activity, and all States Members of the United Nations must take an interest in this matter so that their domestic legislation might prohibit any type of activity for the recruitment, training or use of mercenaries.

111. In the case of the Comoros, the Special Rapporteur has had no reply from the Government to the communications he sent after the mercenary attack towards the end of 1989. He has had replies from France and South Africa concerning the whereabouts and legal status of the mercenaries who took part in the attack. There are, however, international press reports of continuing instability and continuing activity by mercenary groups in the Comoros. In the circumstances, the Special Rapporteur will pursue his efforts to communicate with the Government and closely monitor the measures taken to ensure respect for the country's self-determination.

112. For many years the white minority Government of South Africa has been challenged at the national and international levels over its policy of apartheid. That country has now embarked on a review of the State's segregationist policy, a review accompanied by proposals for national reconciliation. The release of Nelson Mandela and other political prisoners, the legalization of ANC, the Communist Party and other groups, and the beginning of a political dialogue are tangible signs of an initiative that will succeed if there is genuine democratization with equal political and civil rights for all. The Special Rapporteur is following these developments, because the policy of apartheid has been one of the causes of mercenary activity inside and outside South Africa, mercenaries being among the illicit tools used in the acts of criminal repression against opponents of apartheid. It is precisely in the context of this new process of détente that the authorities are starting to admit and investigate cases (hitherto denied or hushed up) of repressive actions carried out by the police and criminals, with the participation of mercenaries.

113. Détente in South Africa does not mean that violence has ceased. President De Klerk's policy is being challenged by right-wing groups, which are rallying to resist any modification of apartheid. Their activities include the formation of paramilitary units, which have taken part in acts of violence in various parts of South Africa. A mercenary component in these right-wing paramilitary units cannot be ruled out.

114. On the basis of his visiting mission to Maldives, the Special Rapporteur has concluded that there was an attack on the capital of that country, Male, in November 1988, with the aim of installing a puppet régime under the leadership of a Maldivian national by the name of Luthufy. The attack was carried out in accordance with an agreement with the leaders of the Tamil organization PLOTE, under which a Tamil guerrilla group from that organization was supposed to land and take Male. The attempt failed, but the capture of the fugitives on the high seas and the subsequent judicial proceedings confirmed the link between Maldivian nationals and PLOTE, and the Tamil component in the attack. Not only was funding provided for the expedition, but promises were made that islands would be handed over, some for Tamil military activity against the Government of Sri Lanka, and two to provide revenue from tourism.

115. In the light of the views expressed by Maldivian officials whom the Special Rapporteur interviewed, and statements by Tamil prisoners with whom he spoke, it seems that the responsibility of the Tamil guerrillas derives from their very participation in an act contrary to international law, but there is no evidence to justify describing them as mercenaries. Rather these are Tamil youths whose bona fide militancy in an organization defending the Tamil cause in Sri Lanka was exploited so as to involve them in an act of aggression against a third country. They did not even know that that was the precise goal of the expedition which they were drawn into.

116. The conclusion regarding the leaders of the Tamil organization PLOTE is quite different. Whatever one's opinion of the policy and nature of the organization in Sri Lanka, a question outside the purview of the Special Rapporteur's mandate, the fact is that those leaders used their leadership position in order to receive money and weapons, putting their organization and military apparatus in the service of private interests in a third country. In addition, they accepted other inducements, such as the right to occupy certain Maldivian islands, as well as guarantees that they could be used as springboards for hostilities against Sri Lanka. Those leaders fit the profile of mercenaries and should be described as such.

117. Obviously the aggression against Maldives has highlighted its vulnerability and the risk that it might fall victim to similar attacks, given its proximity to Sri Lanka and to the ongoing conflict in Sri Lanka, and in view of Tamil activity against the Government of Sri Lanka. Another damaging result is that Maldives has been forced to strengthen its military machinery, diverting resources that should normally go towards improving public services and implementing development programmes. For the rest, the case of Maldives illustrates the type of risk faced by all small States that are strategically located or are close to areas of conflict. These are not countries that have or can afford large militaries, and as a result their self-determination and sovereignty are in a precarious state.

VIII. RECOMMENDATIONS

118. On the basis of the information received by the Special Rapporteur, the analysis undertaken and the conclusions formulated in the preceding chapter, the following recommendations are presented.

119. In keeping with the United Nations policy of condemning and rejecting mercenary activities, and bearing in mind that there are various ways of supplying mercenaries and that there is reliable evidence that they have been used in recent conflicts by certain parties against others, the Special Rapporteur recommends that the reiteration of the United Nations position of principle against mercenary activities should be accompanied by specific provisions and agreements to ensure that both international law and the domestic legislation of each country prevent, criminalize and punish as unlawful acts the supply and sale, in the territory of a State, of services for the recruitment of mercenaries; such supply and sale must intrinsically be considered an offence.

120. As part of an international policy of prevention, it is recommended that the General Assembly suggest to Member States that they include in their domestic legislation provisions defining the recruitment of mercenaries as an offence. In addition, States should regard as aggravating factors the training of mercenaries in their territory and the involvement of mercenaries in concurrent acts such as trafficking in arms, currency and drugs. Lastly, States should facilitate extradition when their nationals are sought by a victim State on the basis of their proven involvement in mercenary acts against the self-determination and sovereignty of that State and the constitutional stability of the Government.

121. Bearing in mind the nature of mercenary activity and the policy established in this area by agreements of the Commission on Human Rights and the General Assembly, the Special Rapporteur recommends reiteration of the position that mercenary activities should be condemned and punished both with respect to the mercenary directly involved and with respect to those using mercenaries and the entity or individual recruiting and training mercenaries, at the request of third parties, to commit acts against international law.

122. Having regard to General Assembly resolution 44/51 on the protection and security of small States (adopted on 8 December 1989), and noting that indeed small States (as in the recent cases concerning Maldives and the Comoros) have been attacked by groups of mercenaries attempting to infringe upon their sovereignty and territorial integrity, the Special Rapporteur sees merit in recognizing the fact that small States, because of their size, their strategic location or their proximity to areas of conflict, may be particularly vulnerable to external threats and acts of interference in their internal affairs. It would therefore be useful to underscore the obligation to respect the territorial integrity of all States and to provide assistance to small States in cases where they request assistance from regional or international organizations or from another State on a bilateral basis, and there is a tangible threat to their sovereignty, territorial integrity and security as a result of acts contrary to international law and to the purposes and principles of the Charter and their own Constitution.

123. With a view to reinforcing the principle of preventing mercenary activities, the principle of respect for the sovereignty of States and the principle of non-interference in internal affairs, the Special Rapporteur sees merit in pointing out that these principles also embody the prohibition of indirect intervention, covert operations or assistance to a party to a conflict that is rebelling against the authority of a legitimate, constitutional Government. This recommendation also calls for a declaration that it is incompatible with the principles of the Charter to use programmes of humanitarian or other assistance in any way that would provide a cover for concrete activities involving the financing, training and use of mercenaries.

124. With respect to the military conflict in Angola, it should be noted that the accession of Namibia to independence and the peace agreement with South Africa have eased the situation in Angola and reduced the number of war fronts. Nevertheless, inasmuch as the internal conflict is still going on because of the continuation of hostilities on the part of UNITA guerrillas, and the use of mercenaries by UNITA, it is recommended that encouragement be given to the process of national

reconciliation in Angola and to the Government's suggestions for clemency and democratization, as a means towards political negotiation designed to put an end to the internal military conflict in Angola and make peace a fact of life for Angolans. By the same token, the Special Rapporteur sees merit in adopting appropriate proposals for the termination of the military and financial assistance which UNITA receives from the outside, for that would create a climate conducive to effective negotiation and political dialogue.

125. A recommendation along the same lines is offered with regard to similar conflicts in southern Africa, particularly Mozambique, where proposals for national reconciliation, internal democratization and the termination of external military assistance to guerrilla rebels who have mercenaries in their ranks are prerequisites for the restoration of peace and the full exercise of self-determination.

126. The recent mercenary activity in the Comoros has again highlighted the fact that shady interests are at work and hostile acts are being committed against the self-determination and stability of Governments in that part of Africa. According to recent reports, the Comoros has not yet fully recovered from the mercenary attack, and those responsible are still enjoying impunity. It is therefore recommended that the General Assembly devote attention to the case of the Comoros, provide effective guarantees of its self-determination and sovereignty, and demand real punishment for the mercenaries who perpetrated the attack. Everybody knows who they are.

127. With regard to the process now under way in South Africa, it is recommended that there be explicit support for sweeping political and social reforms in that country, so that there might be a definitive end to apartheid, recognition of the equal rights of the entire population and full participation by the black population in all aspects of the country's political, social, economic and cultural life. Moreover, inasmuch as the use of mercenaries has been directly linked to the policy of apartheid and the acts of criminal repression against opponents of apartheid, it is recommended that the protection being given to the mercenaries in South Africa should cease, that they should be tried for their participation in criminal acts, and that paramilitary mercenary units working for right-wing groups violently opposed to the political reforms in South Africa should be banned.

128. Having noted the mercenary attack on Maldives in November 1988 and the vulnerability of that small State, the Special Rapporteur sees merit in reiterating solidarity with Maldives, expressing support for its sovereign rights, and condemning the attack and any further attempt to attack it or draw it into the internal conflict in another country of the region.

129. Having noted, too, that in the attack on Maldives a mercenary role was played by the Tamil organization PLOTE, which is waging an armed struggle against the Government of its country, Sri Lanka, the Special Rapporteur sees merit in pointing out, without going into the question of the legitimacy of that rebellion, that even where a national group is engaged in acts of rebellion and protest in the territory of its country, the leadership of such a group is in no way authorized to use (but rather may be condemned for using) the military capability of the organization so

as to divert it from its purported national objectives and embroil it in hostilities against a third country. The introduction of a mercenary element into the group or organization is an aggravating factor.

130. Nevertheless, as was demonstrated in the attack on Maldives, mercenarism on the part of the leadership does not necessarily mean mercenarism on the part of all the members of an organization. Rather the evidence in the case of Maldives suggests that those who carried out the attack were surprised, were used because they were PLOTE militants, and were not even aware that they were being drawn into hostilities having nothing to do with their national cause and in violation of international law. This should be taken into account by the Maldivian authorities in considering the possibility of granting amnesty and giving the Tamil youths now in custody the option to start a new life in Maldives itself or return home.

131. As for Central America, the conflict of the 1980s has virtually been resolved as far as one of the greatest hotbeds of tension (Nicaragua) is concerned. But this is not the case in El Salvador, where the armed conflict continues. In this connection, it is recommended that the United Nations maintain its presence in the region through CIAV and ONUCA, with a view to contributing to the success of the demobilization and peace process throughout Central America. In this way, the countries of the region would achieve political stability, democratic régimes would be consolidated, and acts of intervention which in the past provided a framework for mercenary operations would be averted.

132. Lastly, the Special Rapporteur recommends that the General Assembly invite all Member States to ratify the International Convention against the Recruitment, Use, Financing and Training of Mercenaries. This instrument was adopted by the General Assembly on 4 December 1989, and needs to be ratified by 22 States in order to enter into force. At the time this report was being prepared, there had been only two ratifications. Full validity of the Convention would permit genuine and effective progress towards the elimination of mercenary activities, and would also make it easier for States to cover such offences in their domestic legislation. Accordingly, the General Assembly should seek to have the Convention enter into force as soon as possible.